ANNUAL REPORT 09-10

BRITISH COLUMBIA SECURITIES COMMISSION

BCSC

BRITISH COLUMBIA
SECURITIES COMMISSION

InvestRIGHT
BC Securities Commission
Investor Education

FREQUENTLY USED TERMS

CSA *Canadian Securities Administrators:* a council of the securities regulators of Canada's 13 provinces and territories.

CSTO *Canadian Securities Transition Office:* the organization appointed by the federal government of Canada to lead and manage the transition to a Canadian securities regulator.

FCAC *Financial Consumer Agency of Canada:* an independent body that works to protect and inform consumers of financial services.

IIROC *Investment Industry Regulatory Organization of Canada:* the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

MFDA *Mutual Fund Dealers Association of Canada:* the national self-regulatory organization that regulates the distribution side of the Canadian mutual fund industry.

NI *National Instrument:* a document that sets out uniform rules to govern the national securities market.

PASSPORT: governments and regulators in all Canadian provinces and territories, except Ontario, have established the securities regulatory passport system to give market participants simpler, faster, and cheaper access to Canada's capital markets. A market participant can get access to capital markets in all passport jurisdictions by dealing only with its principal regulator and complying with one set of harmonized rules.

SEDAR *System for Electronic Document Analysis and Retrieval:* the CSA's national electronic filing system for disclosure by public companies and mutual funds.

SEDI *System for Electronic Disclosure by Insiders:* the CSA's national web-based system that facilitates the filing and public dissemination of "insider reports."

SRO *Self-Regulatory Organizations:* an organization recognized by provincial securities regulators as having powers to establish and enforce industry regulations.

TSX *Toronto Stock Exchange:* a national senior equity exchange.

TSX-V *TSX Venture Exchange:* a national junior equity exchange.

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OUR PEOPLE

THE SUCCESS OF THE BRITISH COLUMBIA SECURITIES COMMISSION depends on the skills and motivation of its staff, many of them professionals with specialized securities market expertise. The talent and diversity of the people working for the BCSC makes it a place where people like to stay and grow their skills. The BCSC attracts and retains qualified and dedicated staff members who are active and engaged in their communities. Our employees give their time to not-for-profit organizations outside of work, and many of them volunteer in our Staff Ambassador program, delivering investor and industry education seminars throughout the province.

Every year, BCSC staff members go beyond the call of duty to respond to the challenges posed by complex and dynamic securities markets. This report details their achievements and dedication to making the BCSC a leading securities regulator in Canada.

MESSAGE FROM THE CHAIR

THE BCSC IN A NATIONAL AND GLOBAL CONTEXT

Securities and other financial regulators continued to work together nationally and internationally to develop an appropriate regulatory response to the global financial crisis, looking at issues of risk, accountability, and transparency, among others. Currently, various financial reform proposals are being discussed and debated to deal with perceived weaknesses in the worldwide financial system.

As securities regulators, we are doing our part, largely through the Canadian Securities Administrators (CSA), to continue to tackle the complex issues exposed by the financial crisis and restore confidence in Canada's capital markets. These include the near completion of enforcement matters related to the sale of non-bank sponsored asset-backed commercial paper, proposals to regulate credit rating agencies as well as a review of disclosure issues related to securitized products. We stay abreast of significant regulatory developments in the United States and internationally through our active participation in associations and organizations that represent the interests of securities regulators from around the world, including the North American Securities Administrators' Association and the International Organization of Securities Commissions.

CANADIAN SECURITIES REGULATORY STRUCTURE

In June 2009, the federal government announced its intention to create a single securities regulator for Canada. It followed this announcement by passing legislation to create a Canadian Securities Transition Office (CSTO). The mandate of the CSTO is to develop legislation and a plan to establish a federal Canadian securities regulator. In May 2010, the federal government tabled for information a proposed Canadian Securities Act in the House of Commons. It also referred the draft Act to the Supreme Court of Canada for an opinion as to whether the Act is within the legislative authority of the Canadian parliament.

Throughout the year, the BCSC has provided support to the BC government in its discussions regarding a Canadian securities regulator, offering expertise and advice. The BC government supports the principle of a national securities regime, but its support depends on achieving a model that respects constitutional jurisdiction and builds on the strong foundation of the provincial regulatory system. It has yet to make a final decision whether to opt-in to the federal initiative.

In the face of this uncertainty, BCSC staff continued to deliver on our mandate to protect investors and foster fair and efficient markets. Throughout the year, we strived to deliver effective and efficient securities regulation locally and nationally. BCSC staff worked diligently to meet our service plan commitments. This year we prioritized our resources to our two service plan risks—unsuitable investments and securities fraud. Our staff worked cooperatively with the CSA, self-regulatory organizations (SROs) and other agencies to mitigate these risks.

HARMONIZING SECURITIES REGULATION

In September 2009, the CSA concluded its important work to harmonize Canada's registration regime, with the implementation of NI 31-103 *Registration Requirements and Exemptions*. This new national registration regime applies to firms and individuals, who deal in securities, provide investment advice or manage investment funds.

The new regime introduced new registration requirements, created higher proficiency requirements for some registrants, and enhanced rules for disclosure and the handling of investor complaints, among other things. BCSC staff worked with their CSA colleagues in other jurisdictions to deliver this important project.

Concurrently, BCSC staff led the initiative to implement the passport system for registrants, a streamlined process for dealer and adviser registration in multiple jurisdictions. This phase of passport represents the final step toward meeting the commitments set out in the September 30, 2004 memorandum of understanding regarding securities regulation among the governments of all provinces and territories, except Ontario. Now, with a fully implemented passport system, dealers and issuers can operate throughout Canada by dealing exclusively with one securities regulator in their home jurisdiction.

In addition, we continued to work on a number of other policy initiatives and projects through the CSA. BCSC staff led the work on proposals to update NI 43-101 *Standards of Disclosure for Mineral Projects*. The mining and resource industry is significant to British Columbia and Canada. In the course of its review, staff consulted extensively with industry to better understand the businesses of resource issuers and the risks posed to the market and investors. This resulted in proposals to streamline and remove some of the burdensome regulatory requirements without compromising investor protection. The proposed amendments are the first major changes since the rule came into effect in 2001 and are expected to be implemented by the end of the year.

Building on our technology capabilities, we also worked with the CSA to create two new tools to enhance investor protection and reduce costs for market participants. Through the CSA website, investors can now access registration and disciplinary information about advisers through the National Registration Search, and registrants and issuers are able to calculate their regulatory fees more efficiently with the help of the SEDAR Regulatory Fee Guide.

INTEGRATED ENFORCEMENT

An effective enforcement program acts as a deterrent against market misconduct and enhances investor protection. In addition to our own administrative proceedings, staff also work with policing agencies and Crown Counsel to investigate and prosecute cases through the courts.

In fiscal 2009, using an integrated approach to deal with a pervasive problem, we brought in new rules for issuers and imposed conditions on dealers' registration, with the goal of reducing abusive activity related to trading in the US over-the-counter (OTC) markets. These included disclosure, greater transparency of trades, and heightened know-your-client obligations.

This year we monitored compliance with the rules, held dealers accountable for their trading of OTC securities in coordination with the Investment Industry Regulatory Organization of Canada (IIROC), and cease traded issuers for disclosure violations.

Since the rules took effect, nearly half of the companies we identified as BC issuers have apparently severed their connections to the province or no longer exist. In addition, approximately 140 issuers remain cease-traded and we are monitoring nearly 200 issuers for compliance with the new disclosure requirements.

We also looked beyond our borders and took action against three offshore entities that were soliciting BC investors. In one case, through quick and decisive action, we were able to effectively shut down a Cyprus-based international website scheme after issuing a temporary order and notice of hearing. Cooperative enforcement efforts caused other Canadian regulators to publish warnings and issue orders against the firm and the Cyprus securities regulator has called for a criminal investigation into the matter.

We also continue to push for stronger criminal enforcement by working with the Attorney General and referring cases to Crown Counsel to build a body of criminal prosecutions that will further deter misconduct.

On the national front, CSA members and IIROC collaborated to complete investigations into the non-bank sponsored asset-backed commercial paper (ABCP) matter. A joint investigation resulted in the Autorité des marchés financiers, Ontario Securities Commission (OSC), and IIROC reaching settlement agreements with a number of financial institutions and requiring payment of a total of $138.8 million in administrative penalties and investigation costs.

UNDERSTANDING AND EDUCATING INVESTORS

We consider investor education to be one of our most important tools to help combat investment fraud and to help investors make more informed investment decisions. We seek to understand investor behaviours and attitudes through research and develop educational materials and tools for investors to guide them through the complexities of investing. Our investor education strategy also centres on actively warning investors about suspicious investment schemes. This year we issued three Investor Alerts.

Nationally, we worked with the CSA to conduct the CSA Investor Index 2009. This was a follow-up to the benchmark survey we conducted in 2006 in order to understand Canadians' knowledge about investments and experience with fraud.

We learned from this index that just under four-in-ten Canadians (38%) have been approached with a fraudulent investment and 4% of Canadians have invested money in what turned out to be an investment fraud.

In order to raise awareness about investment fraud and to encourage earlier reporting of suspicious activity, we continued our multi-year radio advertising campaign across the province and in ethnic communities to reach more investors.

In addition to our outreach efforts, we updated and expanded our *Guide to Investing*, first published in 2008, adding new information for investors about investing in private companies operating in the exempt market. Although this market is an important source for venture capital financing, it is also a high risk market for investors who need to understand the risks of investing in it.

FINANCIAL PICTURE AT YEAR-END

We fund our operations entirely from fees charged to securities market participants. Our fee model generates revenue that grows generally with the long-term growth in the market, providing the resources to regulate increased market activity. Fee revenue fluctuates with short-term market movements so we aim to break even over the business cycle. We have also set aside a fee stabilization reserve, equal to about six months of expenses, to provide a cushion to allow us to maintain regulatory operations without raising fees during any protracted period of weakness.

During fiscal 2010, we generated an operating surplus of $1.2 million, $2.9 million better than expected. We expected a significant drop in market activity. Instead, non-mutual fund prospectus and exempt market fee revenue increased, due primarily to resource and energy sector capital-raising activity. Operating expenses increased 0.5% to $29.9 million, $0.4 million more than budgeted. The variance was due primarily to fewer than expected vacant positions and higher than expected enforcement litigation costs.

BCSC EXECUTIVE TEAM

In July 2009, Douglas Hyndman left the BCSC after 22 years as Chair and CEO to lead the CSTO. His passion and commitment to protecting investors and strengthening the Canadian securities regulatory system is unsurpassed. The BCSC matured under his capable leadership and became a recognized leader in securities regulation as a result of it. On behalf of the BCSC staff and commissioners, I want to thank Douglas Hyndman for his valuable contribution to securities regulation over the many years.

In May 2010, Paul Bourque joined the BCSC as Executive Director. Paul has an extensive regulatory and law enforcement background that includes eight years as Senior Vice President, Member Regulation, at the Investment Dealers Association of Canada (now IIROC). He served as Deputy Minister of Justice and Deputy Attorney General for the Alberta government. Most recently, he was Associate Partner and Leader, Securities and Regulatory Investigations Practice for Deloitte & Touche.

As Executive Director, Paul will be the Chief Operating Officer and will oversee the financial and administrative affairs of the BCSC, and direct the activities of the staff to effectively enforce the BC *Securities Act*.

RECOGNIZING STAFF AND COMMISSIONERS

Finally, I would like to thank our staff and commissioners for their valuable contributions to securities regulation. I am honoured to have the opportunity to lead an organization where so many talented people take pride in carrying out the BCSC's mandate to protect the public and foster fair and efficient capital markets. Staff continually seek to learn and build on our capacity to deliver outcomes-based regulation – encouraging market participants to consider the interests of both investors and markets in making their compliance decisions and assisting them to meet their regulatory obligations. We accomplished some important initiatives in a difficult year and I look forward to tackling the challenges ahead with our dedicated team.

STATEMENT OF ACCOUNTABILITY

This report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of the BCSC for the 12 months ended March 31, 2010 in relation to the 2009/12 Service Plan. The measures presented are consistent with the BCSC's mandate, goals and strategies, and focus on aspects critical to the organization's performance. I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion.

The report contains estimates and interpretive information that represent the best judgment of management. In preparing it, we have considered all significant decisions, events, and identified risks, as of June 3, 2010.

BRENDA M. LEONG,
Chair and Chief Executive Officer

ORGANIZATIONAL OVERVIEW

BCSC VISION

To play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.

"Our commitment to appropriate, effective, and flexible regulation is guided by the values of integrity, accountability, and service. This commitment allows us to keep pace with quickly evolving capital market changes."

MISSION

The BCSC is the independent provincial government agency responsible for regulating securities trading in British Columbia through the administration of the *Securities Act*.

Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

ENABLING LEGISLATION

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

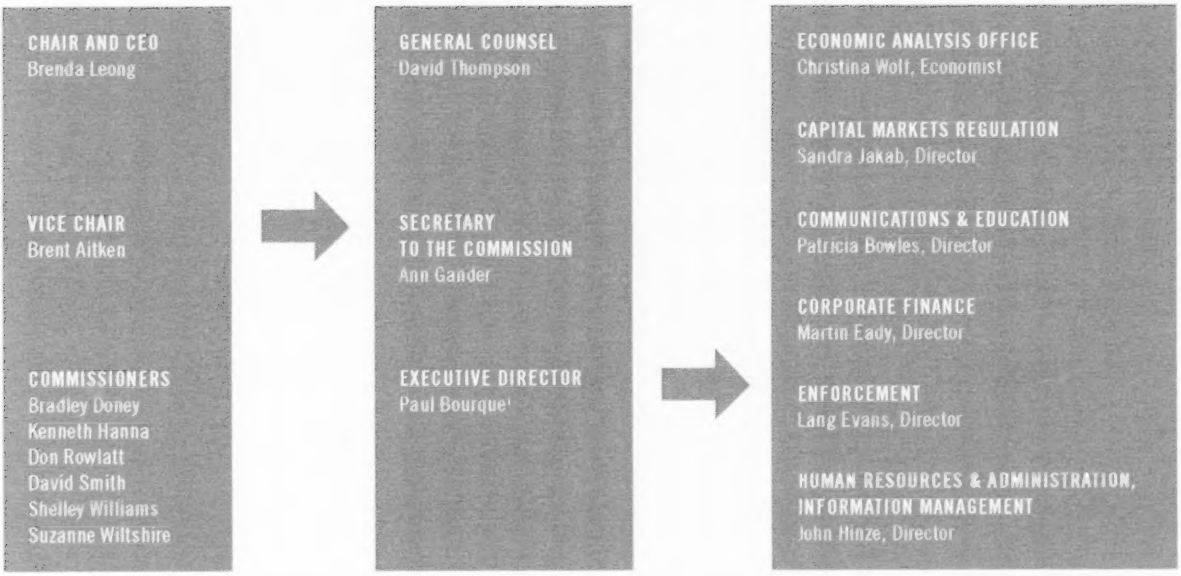
We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit this annual report and audited financial statements. We submit our three-year service plan to the provincial Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

SHAREHOLDER'S LETTER OF EXPECTATIONS

The provincial government sets out the following expectations of the BCSC in the Shareholder's Letter of Expectations:

- Propose legislation that streamlines, simplifies, and harmonizes current legislation with other jurisdictions to reduce regulatory burden on business while strengthening investor protection
- Develop and implement the interprovincial regulatory passport system
- Work with other provinces and the federal government to explore further opportunities to strengthen the Canadian securities regulatory framework and investor protection

ORGANIZATIONAL STRUCTURE



GOVERNANCE

The BCSC is governed by a board of up to 11 (currently eight) commissioners appointed under the *Securities Act*. The commissioners have four categories of responsibilities. They:

- Review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance
- Oversee the SROs, exchanges, and other marketplaces
- Act as adjudicators on enforcement matters brought under the *Securities Act* and applications for review of decisions made by SROs and exchanges
- Act as the BCSC's board of directors, overseeing the BCSC's management, operations, and financial affairs

Commissioners also sit on one or more of three committees: the Governance Committee, the Audit Committee, and the Human Resources Committee.

This year we completed and implemented a new governance policy that will provide stronger oversight of the BCSC. Except where noted in the governance policy, the Board's governance practices meet the government's *Best Practice Guidelines—BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, Board Resourcing and Development Office).

The governance policy requires that we disclose the following information about the Commission in the annual report:

Waivers The Commission has an ethics and conduct policy. The Board granted no waivers from that policy during the year.

Commissioner compensation and attendance records Please refer to page 45 in the financial report for the names of the commissioners, their attendance records, and their compensation.

Compensation consultants Please see page 45 in the financial report for information on the consultants retained this year.

Compliance with governance policy and procedures There were no material deviations from the governance policy this year.

More information on the membership and purpose of Board committees, our governance policy, our commissioners, and our senior management team is available on the BCSC website at www.bcsc.bc.ca.

1. Effective May 17, 2010

ADVISORY COMMITTEES

We have four advisory committees that help us accomplish our mission:

Securities Law Advisory Committee

The Securities Law Advisory Committee advises the Commission on rules and policy initiatives and provides feedback on regulatory trends and emerging issues. This committee is an important link for communication between the Commission and securities lawyers.

Securities Policy Advisory Committee

The Securities Policy Advisory Committee advises on administrative, regulatory, and legislative matters affecting the operation of the securities markets in the province, and provides feedback on emerging issues. The committee members represent a cross-section of expertise and cover a broad spectrum of securities market activities in BC.

Public Company Technical Forum of the Institute of Chartered Accountants of BC

This body of the Institute of Chartered Accountants of BC offers an opportunity for practicing accountants serving publicly traded companies to discuss their observations and concerns with BCSC and TSX Venture Exchange (TSX-V) representatives. It also allows the BCSC and the TSX-V to consult with accounting professionals on future securities regulation policy directions and the possible impact on public companies and their auditors.

CSA Mining Technical Advisory & Monitoring Committee

This committee of mining industry technical representatives serves as a forum for continuing communications between the mining industry and the CSA. For example, the committee advises the regulators about issues related to NI 43-101 *Standards of Disclosure for Mineral Projects*, mining industry and professional developments, and other matters related to securities regulation.

More information on committees is available on the BCSC website.

In addition to these advisory committees, we consult with stakeholders on a less formal basis during the year. We also seek information on the needs and views of individual investors through our education seminars, consultations, the InvestRight website, and investor advocacy groups.

KEY STAKEHOLDERS

- *The public*—which relies on us to foster capital markets that contribute to BC's economic well being
- *Investors*—who seek to invest in fair and efficient securities markets
- *Issuers*—companies that rely on the capital markets to fund growth
- *Securities firms*—which advise investors and companies, as well as facilitate trades
- *Other regulators*—with which we enforce compliance, and develop and implement policy initiatives through the CSA
- *The provincial government*—to which we are accountable

ACTIVITY STATISTICS[1]

FISCAL YEAR	2006	2007	2008	2009	2010
Registrants[2]	26,815	28,463	30,365	30,344	31,553
Active reporting issuers	6,245	6,316	6,505	6,960	7,212
Mutual fund prospectus filings	2,410	2,518	2,655	2,906	2,832
Prospectus filings (non-mutual fund)	699	851	878	515	828
Initial public offering filings[3]	306	307	409	214	184
Continuous disclosure reviews	204	289	168[4]	279	341
Annual information forms	1,691	1,913	1,979	1,416	1,374
Cease trading orders (reporting issuers)	226	338	230	361[5]	437
Exemption applications	433	405	384	252	281

1. Due to market conditions, overall activity was generally down in a number of areas beginning in 2009.

2. Registration figures are drawn from the National Registration Database (NRD).

3. Initial public offerings (IPOs) are a subset of all prospectus filings.

4. Continuous disclosure reviews declined in fiscal 2008 because staff were reassigned to handle the high volume of IPOs.

5. Cease trade orders increased significantly due to the OTC initiative, which resulted in numerous orders against new reporting issuers.

CORE BUSINESS AREAS

Compliance

Our Capital Markets Regulation division oversees non-SRO member firms and their employees, the SROs, and exchanges and marketplaces doing securities business in BC. Our Corporate Finance division oversees companies and insiders.

> "In fiscal 2010, BCSC staff held four outreach workshops with our directly regulated community that focused on outcomes-based regulation, the new national registration regime and the new passport for registration."

Under the CSA umbrella and powers provided in the *Securities Act*, we rely on SROs to perform key regulatory functions related to investment dealer and mutual fund dealer firms, and trading activity in Canadian equity marketplaces:

- IIROC regulates investment dealers and equities trading on Canadian marketplaces, including the TSX, the TSX-V, the Canadian National Stock Exchange (CNSX), and other marketplaces
- The Mutual Fund Dealers Association (MFDA) regulates mutual fund dealers

We directly regulate BC-based issuers, BC-based or BC branch offices of registered firms not under IIROC or MFDA supervision, and other market participants doing business in BC.

The CSA shares responsibility for overseeing SROs and several marketplaces. Each SRO has a CSA regulator leading the oversight work on behalf of all CSA jurisdictions. The BCSC is a participating regulator for IIROC. The BCSC is the principal regulator for the MFDA. The BCSC and the Alberta Securities Commission share lead regulatory responsibilities for overseeing the TSX-V. We exempt the TSX Inc., CNSX, and the NASDAQ Stock Market Inc. from recognition because we rely on oversight by their principal regulators.

Enforcement

Effective enforcement requires decisive action against misconduct. Decisive action depends on:

- open channels for receiving tips
- timely complaint reviews
- targeted surveillance to detect misconduct
- thorough investigation of suspected misconduct
- the resolution of cases through timely settlements and administrative decisions

Because we do not have the authority to prosecute wrongdoing in the criminal courts, we engage primarily in administrative enforcement. When we detect wrongdoing that we think should be dealt with through criminal prosecution, we investigate to the criminal standard and refer cases to Crown Counsel for prosecution.

> "Our referrals to Crown have resulted in three convictions—one 12-month jail term, a second resulted in 18 months of house arrest, and a third that is awaiting sentencing."

Our Enforcement division focuses on cases with a strong BC connection. When cases with national implications emerge involving a BC-based market participant, we usually take the enforcement lead. Cases involving SRO member misconduct are most often dealt with directly by the respective SRO.

In Canada, we routinely cooperate and coordinate with other regulators through the CSA on domestic enforcement cases, exchanging information formally and informally on a near-daily basis to the full extent that the laws in each jurisdiction allow. Reciprocal orders, in which enforcement actions in one jurisdiction are upheld in another, are an important part of our enforcement landscape.

> This year, we issued two Investor Alerts and one Investor Watch in partnership with securities regulators from other Canadian provinces.

In North America, we regularly cooperate and coordinate with US federal and state regulators in enforcement matters.

Internationally, we are active in the following organizations that represent North American, pan-American, and international securities regulators, respectively:

- North American Securities Administrators Association—an organization of Canadian provincial, American state, and Mexican federal securities regulators
- Council of Securities Regulators of the Americas—a forum for mutual cooperation and communication among securities regulators in North, South, and Central America, and the Caribbean
- International Organization of Securities Commissions (IOSCO)—the international authority for global cooperation on regulatory standards, surveillance, enforcement, and information exchange among securities regulators

In addition, we have formal bilateral memoranda of understanding (MOUs) with specific foreign regulators and a multilateral MOU with other IOSCO members. These establish processes and expectations for regulators assisting each other in gathering information for investigations.

The Enforcement Report, which begins on page 62, provides a detailed summary of our enforcement activity and initiatives in fiscal 2010.

Investor Education

Our goal is to educate investors so they can make informed investment decisions and protect their financial interests. We want investors to confidently research and critically assess potential investments before they invest. Research shows that many adults lack the knowledge and understanding they need to make sound investment decisions. For this reason, our Communications & Education division develops programs using a life-cycle approach, which recognizes that young people with a proper financial education become more confident and knowledgeable adult investors.

BC is the only Canadian province providing mandatory financial learning programs for youth. Since 2004, we have provided BC high school teachers with a comprehensive financial life skills education resource known as *The City: Financial Life Skills for Planning 10*. In 2008, we collaborated with the Financial Consumer Agency of Canada (FCAC) to launch an online bilingual financial literacy program modelled on the BCSC's successful, award-winning teaching resource.

Our adult education programs target seniors and pre-retirees, two groups we know to be particularly vulnerable to investment fraud. If they fall victim to a fraud, the financial impact can be serious because they have less time to recover from financial losses than younger investors do. We offer tools and information to help investors avoid and report investment fraud and to help them understand the basics of making informed investment choices through our website resource, InvestRight.org.

The BCSC Education Fund report, which begins on page 68, gives a detailed summary of our investor education initiatives and activity in fiscal 2010.

Policy-making

Policy-making is one regulatory tool we use to protect investors and foster fair and competitive markets. We have the authority under the *Securities Act* to make rules. We also issue guidance to help market participants understand our requirements. Our Corporate Finance and Capital Markets Regulation divisions work to harmonize rules and guidance among all CSA jurisdictions and mitigate compliance costs for market participants.

"On September 28, 2009, the CSA implemented a new Canada-wide registration regime, which provides a platform for the registration passport. The BCSC led implementation of this final phase of the passport initiative. The passport for registrants creates a streamlined process for individuals or firms to register in multiple jurisdictions."

Within an interdependent global economy, capital market events in one country can reverberate around the world, challenging investors, market participants and regulators. Since we operate within a national regulatory system, we work with the CSA to identify problems arising from or revealed by global events that warrant a national response. We also work "on the ground" in BC to deliver effective securities regulation, coordinating our work with SROs and the CSA.

"We conduct, through Hay Group, annual surveys to gauge how employees perceive the BCSC workplace. This year's results show that staff perceive the BCSC as a very good place to work. We continue to be in the top quartile of North American employers for employee satisfaction with the workplace."

BCSC OPERATING CAPACITY

Securities markets are complex and constantly innovating. To regulate well, we recruit and retain motivated professionals who have both the skill and desire to make a difference. Our employees tackle interesting and challenging work. We pay competitive salaries and benefits, and provide an excellent working environment.

We support our regulatory operations with robust internal controls and information management systems, including a disciplined approach to resource allocation. Our rigorous budgeting and strategic planning processes enable us to fulfill our market oversight role cost-effectively. The chart below compares operating spending over four years, along with our expectations for fiscal 2011.

Salaries, benefits, and occupancy costs account for almost 85% of our operating costs. Operating expenses increased at an average annual rate of 1.8% for the eight years ended March 31, 2010, significantly below the annual rate of inflation. We have not increased fee rates in over 15 years.

FISCAL YEAR	2007 ACTUAL	2008 ACTUAL	2009 ACTUAL	2010 ACTUAL	2011 BUDGET
Operating expense	$ 28.5 million	$ 28.4 million	$ 29.8 million	$ 29.9 million	$ 31.1 million

WORKING WITH GOVERNMENT

In the coming year we will continue to support the BC government's objectives for regulatory reform. We will also continue to lead work with provincial ministries and the CSA to make the Canadian securities regulatory system more efficient and effective. This year, we met the commitment made to the Council of Ministers to implement a new Canada-wide registration regime and the passport system for registrants.

We also took initiatives to help meet the government's climate action plan by reducing our carbon footprint. In fiscal 2010, we

- mandated electronic filing of exempt distribution reports to reduce paper use by 25,000+ sheets annually
- completed a space assessment and will reduce office space by 6% on lease renewal
- completed additional server virtualizations and developed a roadmap for further virtualization, to reduce hardware needs and energy use
- implemented an electronic performance management system and an electronic recruitment application tracking system
- upgraded payroll software and promoted electronic paystubs

REPORT ON PERFORMANCE

Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital.

This section describes each goal, the strategies supporting it, and the measurable progress we made during the year towards achieving the goals. We also identified two risks in our service plan that present a threat to our mission. Some of the strategies described in this section are a direct response to those risks.

GOALS

Four goals support our mission:

GOAL 1
PROMOTE A CULTURE OF COMPLIANCE

GOAL 2
ACT DECISIVELY AGAINST MISCONDUCT

GOAL 3
EDUCATE INVESTORS

GOAL 4
ADVANCE COST-EFFECTIVE REGULATION

STRATEGIC RISKS

We apply a disciplined risk management framework to help identify the most serious threats, or risks, to our mission. This framework gives us confidence that the following two risks carried forward from last year deserved continued regulatory attention.

RISK 1

UNSUITABLE INVESTMENTS

When financial advisers make unsuitable investment recommendations and breach their suitability obligations under the *Securities Act*, investors end up with investment products that do not meet their financial needs or goals.

RISK 2

SECURITIES FRAUD

Investment fraud can negatively affect people's financial and physical health, their relationships with others, and their willingness to invest. For these reasons, our enforcement actions need to be timely, effective, and responsive. We also need to educate investors about investment fraud.

MEASUREMENTS

We design performance measurements for each goal to help us, and our stakeholders, to assess our progress in achieving the goals. We select measurements based on the following criteria:

- *Connection to our goals*—we choose measurements that will assess our progress in achieving our goals and, through them, our mission.
- *Longevity*—we choose measurements that we will be able to track over several years, and whose trends will provide valuable information for improving our performance.
- *Measurability*—we choose measurements for which we can collect accurate data and form baselines in a timely way.

Some measurements track the overall progress we are making towards achieving our goals. Others measure key operational processes critical to the delivery of an efficient and effective regulatory system.

We critically evaluate our measurements yearly, to ensure they have integrity and are meaningful. Accordingly, this may cause us to reconsider a measure or the data collection method. This year, we achieved under half of our measurement targets.

For a detailed review of our data sources, collection method and frequency, and controls, see the Summary of Performance Measurement Systems document available on the BCSC website.

BENCHMARKS

Each year we look for opportunities to benchmark and continue to test various methods for benchmarking competitiveness with other Canadian securities regulators. The measures we use are not tracked consistently across other CSA jurisdictions, so we do not have benchmark comparisons to gauge our relative performance against our peers.

GOAL 1 / PROMOTE A CULTURE OF COMPLIANCE

Investors are better protected if securities firms and securities issuers understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with our rules. We intervene to correct non-compliance when warranted.

STRATEGIES

Strategy 1 / Strengthen suitability risk management

To provide a suitable investment recommendation, a registrant must know the client, know the product, and match the client to the product. We adopted this strategy because the number of complaints SROs receive about unsuitable investments is consistently high relative to other types of complaints about registrants. Our goal with this strategy is to continue the work from previous years to deal with the risk of unsuitable investments.

During the year, we worked with IIROC and the MFDA to understand how they would translate their strengthened suitability frameworks, and anticipated additions to their suitability frameworks, into an improved culture of suitability compliance. Both SROs have recently introduced or consolidated their guidance about product due diligence and other aspects of suitability compliance. We learned about their efforts to educate their dealer members, test suitability compliance, and to take appropriate compliance or enforcement action. Finally, we continued to monitor complaints, compliance, and enforcement information.

Strategy 2 / Maintain global leadership in mining disclosure standards

Mining and mineral resource exploration are vital and strategic industries, both economically and socially. About 1,000 BC-based issuers (more than 60%) are mining and exploration issuers. The BC mining industry directly employed about 7,500 people and generated gross revenues of $6.9 billion and net income of $1.2 billion in 2007.[1] Market monitoring shows that the TSX and TSX-V play leading roles globally in mining funding, with 57% of public mining issuers worldwide listed on those Canadian marketplaces.[2]

A key regulation that applies to raising capital in the mining sector is NI 43-101 *Standards of Disclosure for Mineral Projects*. This year, we led a CSA project and consulted with market participants to examine these issues and develop NI 43-101 amendments. This work derived from cost and efficiency issues with NI 43-101 that our mining advisory committee raised.

Our project objectives were to reflect best practices in mining disclosure, improve cost efficiency, and foster dynamic and competitive capital raising in the mining industry. On April 23, 2010, the CSA published for comment its proposal to amend NI 43-101, the companion policy, and the technical report form. The proposals seek to update the rules that govern disclosure by mining companies.

1. PricewaterhouseCoopers 2007 Mining Report

2. http://www.tsx.com/en/pdf/Mining_Sector_Sheet.pdf

MEASUREMENTS

Measurement 1 / Percentage of reviewed issuers that reduce deficiencies in their continuous disclosure

Our corporate finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of issuers that received comment letters from us during that year. The results of this review show the extent to which our detailed CD review work motivated non-compliant issuers to improve their disclosure voluntarily.

STATUS: MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL[1]	2009 ACTUAL[2]	2010 TARGET	2010 ACTUAL[3]	2011 TARGET
PERCENTAGE OF REVIEWED ISSUERS THAT REDUCE DEFICIENCIES IN THEIR CONTINUOUS DISCLOSURE					
Improved disclosure	100%	100%	94%	100%	95%
Improved disclosure to minimum standards	91%	87%	90%	97%	Set new baseline[4]

1. All of the 23 issuers improved their accounting disclosure in some areas; 21 (91%) improved in all areas.

2. All of the 15 issuers improved their disclosure in some areas; 13 (87%) improved in all areas.

3. All of the 30 issuers improved their disclosure in some areas; 29 (97 %) improved to meet the basic standard of compliance.

4. Canada will adopt international financial reporting standards (IFRS), effective January 1, 2011, which changes the minimum standards. The new baseline will reflect IFRS transition.

Notes on measurement: This measurement always lags by one year because we have to wait for the next filing cycle to evaluate improvements from a prior year's disclosure.

Measurement 2 / The degree to which randomly sampled mining issuers comply with standards for technical disclosure

BC is home to most Canadian mining issuers. For this measurement, we randomly select from a list of BC-based mining issuers and analyze whether those issuers' most recent technical filings are compliant with NI 43-101 *Standards of Disclosure for Mineral Projects*. This review shows the extent to which a sample of BC-based mining issuers is compliant in specific areas of their technical disclosure.

STATUS: NOT MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL	2009 ACTUAL	2010 TARGET	2010 ACTUAL	2011 TARGET
THE DEGREE TO WHICH RANDOMLY SAMPLED MINING ISSUERS COMPLY WITH STANDARDS FOR TECHNICAL DISCLOSURE					
Filed disclosure	75 %	73%	70%	61%	75%
Issuer websites	57%	65%	70%	50%	75%

Notes on measurement: We measure the degree to which BC mining issuers meet mining disclosure standards. In our view, an average score of 70% or better indicates that issuers are making an acceptable effort to comply. After several years of steady improvement, this year's results reflect a disappointing reversal to 2006/07 levels, both in filed and website disclosure. We must now look for alternative strategies to resume the improvement trend.

Measurement 3 / Percentage of BC-prime reporting issuers on defaulting issuer list

The *Securities Act* requires reporting issuers to file certain information on time, in the required form, and with the appropriate fee. We put issuers on a list of defaulting issuers if they fail to file or pay fees, or file materials that are materially deficient. This measure was intended to assess compliance with these filing requirements. We expected the percentage of BC-prime issuers on the list to decrease over time as a result of active compliance reviews.

Notes on measurement: In December 2008, we moved away from weekly to daily reporting of defaulting issuers, in order to provide more timely information to the market and thereby strengthen investor protection. Because of this change, a statistical blending of the old and new processes yielded an inadequate baseline to measure compliance in fiscal 2009 and our IT systems no longer support tracking this measure. Therefore, we have discontinued it and intend to find another measure of issuer compliance.

Measurement 4 / Average number of deficiencies per examination in Capital Markets Regulation

Our Capital Markets Regulation division reviews firms that are not SRO members for compliance with their regulatory obligations. Staff adjust exam selection quarterly based on risk-based assessment models. We report results using 57 categories of deficiencies.

STATUS: NOT MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL	2009 ACTUAL	2010 TARGET	2010 ACTUAL	2011 TARGET
AVERAGE NUMBER OF DEFICIENCIES PER EXAMINATION IN CAPITAL MARKETS REGULATION[1,2]	6.68	6.9	6.6[3]	7.56	7.2

1. *Based on 16 examinations in the year ending March 31, 2010, 20 in 2009, and 19 in 2008.*
2. *Our examination program is risk-based and depends on the type of firm audited and the methodology of our latest exam program. The number of categories changes as we drop, consolidate, or add categories to capture current compliance concerns accurately.*
3. *In September 2009, a new registration regime came into effect across Canada. We originally thought we would need to set a new baseline to reflect two new categories of registered dealer. However, the firms we examined this fiscal year were all in pre-existing categories, so we extended our 5% improvement target to 2010, rather than set a new baseline.*

Notes on measurement: Firms subjected to audits for cause are excluded from our analysis. This measurement is quantitative and records all deficiencies, whether or not the deficiency was serious in nature.

The figures above show that a registrant reviewed this year had an average of 7.56 cited deficiencies, an increase from 2009. Many were minor deficiencies, such as policy manual deficiencies, or administrative in nature. The higher number can also be attributed to our exchange contracts dealer sweep, where we uncovered an average of 12 deficiencies per registrant. Exchange contracts dealers are now called restricted dealers.

This is only one measurement of several we rely upon to determine whether firms have a culture of compliance. We believe we can reduce these numbers by taking proactive steps to train compliance officers, conducting issue-specific or sector-specific sweeps and renewing a focus on firms with repeat and serious deficiencies. Given that our audit program is evolving to include the timeliest issues of the day, we do not expect to eliminate deficiencies.

GOAL 2 / ACT DECISIVELY AGAINST MISCONDUCT

We aim to achieve timely enforcement through early intervention and the pursuit of cases that will deter future misconduct. The BCSC cooperates with securities regulators in other jurisdictions to share information, conduct investigations, and issue reciprocal enforcement orders. We also aggressively pursue securities fraud cases and other misconduct through administrative proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions and order people out of the market. We work closely with Crown Counsel to pursue criminal charges where warranted. Criminal convictions allow for the imposition of penalties, including prison sentences, which help deter serious misconduct.

STRATEGIES

Strategy 1 / Detect and deter fraud through industry outreach and intelligence gathering

In order to detect and deter fraud, we need to gather and assess information from a variety of sources. Our research shows that the public most often turns to police to report suspicious activity, including investment fraud, so capturing these leads is important. Police change departments and move to different communities, and investment fraud is a small component of their work; therefore, ongoing training in securities fraud issues is essential to the success of our work.

This year, staff members presented 11 seminars to policing agencies around the province, and launched a new Vancouver Police Department outreach program. This work aims to strengthen our ability to detect fraud in its early stages. We used our existing police and compliance contacts to probe for fraud leads, and worked on two special projects to sweep for suspicious activity in offshore accounts and at transfer agencies used by private companies.

Additionally, because fraud victims often make large withdrawals to invest in a scam, financial industry participants, like banks and credit unions, can play a key role in the early detection of fraud. This year we met with banking industry participants to encourage them to consider a frontline fraud detection-training program similar to the one we developed with the credit unions.

Strategy 2 / Build stronger criminal investigation capacity in BC for financial crime

Criminal convictions bring penalties that can strengthen deterrence of serious misconduct. We are continuing to investigate and refer cases to Crown Counsel that we feel warrant criminal prosecution, and have a high likelihood of conviction.

Since April 2009, the Enforcement division has referred five new cases to Crown. In three of those cases, charges are approved, and the other two are pending charge approval.

Strategy 3 / Disrupt abusive junior market practices in British Columbia

This strategy continues our efforts to discourage abusive junior market activity in BC, such as illegal stock promotions, spam, and the creation of shell companies as vehicles for market manipulation.

To curb this abusive activity, we imposed new regulatory requirements that applied to both issuers and dealers dealing in US OTC markets. We also imposed reporting and other heightened know-your-client obligations on investment dealers with offices in BC selling OTC issuers' securities. Part of our work included setting up new programs to monitor compliance with these requirements.

In fiscal 2010, we monitored compliance by issuers and dealers, held dealers accountable for their trading of OTC securities in coordination with IIROC, and cease traded issuers for disclosure violations. As a result, we took enforcement action against a company that traded on the Over-the-counter Bulletin Board.

MEASUREMENTS

Measurement 1/ Action in response to ongoing misconduct

Early detection and intervention helps to protect investors, particularly in illegal distribution cases where investor losses tend to increase exponentially over the life of the distribution. We track the cases accepted each year for enforcement action where there is active misconduct, when we learn of it. We calculate the percentage of those cases in which we take disruptive action – freeze assets, issue a cease trade order, or take other steps to disrupt the misconduct. This demonstrates how often we take early action to stop misconduct.

STATUS: MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL	2009 ACTUAL	2010 TARGET	2010 ACTUAL	2011 TARGET
PERCENTAGE OF NEW CASES WITH ACTIVE MISCONDUCT WHERE WE INTERVENED					
	56%	88%	60%	100%	110 days[1]

1. In fiscal 2010, we introduced a new program to proactively seek out active illegal distributions. In our new measure, we track a specific number of intervention types and measure how many days it took us to implement the intervention from the opening of the complaint.

Notes on measurement: We measure this statistic by looking backwards from the disruptive action taken to the discovery of the case. We check whether the activity was active when we discovered it. We have changed this measure for fiscal 2011 to reflect the time taken by the Enforcement division to act on incidents of active misconduct. Most complaints result from the failure of an investment opportunity (loss of funds and inability to contact seller), and we normally do not hear about it until the perpetrator is long gone. As a result, the number of cases where we can identify and confirm active misconduct is very small (in fiscal 2010, we were only able to identify seven cases of active misconduct).

Measurement 2/ Timely resolution of enforcement cases

This measures the average time to complete our administrative enforcement cases. For cases we close by settlement or decision in a fiscal year, we measure the average number of months from the date we first learn of the alleged misconduct to case completion. Reciprocal orders are not included.

STATUS: MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL	2009 ACTUAL	2010 TARGET	2010 ACTUAL	2011 TARGET
AVERAGE LIFE, IN MONTHS, OF CASES RESOLVED VIA SETTLEMENT OR DECISION					
	39.5	47	34	27.7	41.5

Notes on measurement: At the beginning of each year we set our targets using the open cases in enforcement. We then develop completion projections drawn from internal service standards for the key steps within the enforcement process. (i.e. assessment, investigation, litigation). For fiscal 2011, we project that of the cases open and likely to be completed within the year, it will take on average 41.5 months to complete, assuming all cases proceed to a hearing and no delays.

GOAL 3 / EDUCATE INVESTORS

Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments, legitimate or not, before they invest. We focus our financial life skills programs on helping investors spot unsuitable or fraudulent investments, and we work with partners to reach religious and ethnic communities throughout the province.

STRATEGIES

Strategy 1 / Expand investor education content and marketing to promote greater awareness about investing with an advisor

Getting sound and objective financial advice is key to achieving financial goals. Investors play an important role in making sure they receive the advice they need. Investors need to learn how to decide if an advisor is a good match for them, choose suitable investments, and work with their advisors to monitor their portfolios on a regular basis.

In January 2010, we published an updated and expanded *Guide to Investing: How to work with your Investment Advisor*. We promoted the guide extensively with radio advertising campaigns that ran across the province. We focused our blogging on investor protection messages, and we used social media websites to distribute the information to a wider audience.

In August 2009, we discontinued work on a proposed web-based mutual fund comparison tool for InvestRight.org because the information provided was not sufficient.

Strategy 2 / Educate the public about fraud and encourage reporting to the BCSC

We know from our research that almost one-in-twenty Canadians have been victims of investment fraud and that four-in-ten Canadians have been approached with a fraudulent investment. Yet despite this relatively common experience, few people report their investment fraud experience. Investor education is the tool we use to generate a greater awareness of investment fraud and encourage people to report it to the BCSC.

Communications & Education staff worked with the Enforcement division to deliver seminars to policing agencies and financial institutions. We also collaborated with other Canadian regulators to issue three investor warnings, and worked with the Alberta Securities Commission to design and implement a website tool that investors can use to learn how to protect themselves against fraud. Additionally, BCSC staff delivered 42 InvestRight seminars across the province, attended four trade shows, spoke with various media outlets about investment fraud, and participated in the creation of podcasts that are available on our InvestRight YouTube channel.

Strategy 3 / Expand reach of financial life skills education programs for youth

Since 2004, we have focused our financial life skills education on youth, providing BC high school teachers with a comprehensive resource known as *The City: Financial Life Skills for Planning 10*. In September 2008, we launched a new online program in partnership with FCAC, modelled on BCSC's successful, award-winning resource. Called *The City*, this bilingual financial literacy program is available across Canada.

In fiscal 2010, we extended the reach of "The City" (the *Planning 10: Finances* and FCAC partnership versions) through province-wide marketing, teacher conferences, free teacher-training webinars, and partnerships. In addition, we completed our work on two more modules for the FCAC/BCSC program, and we began a full redesign and update of the BCSC resource. We plan to begin distributing the updated resource in fall 2010. Finally, we began a program of giving workshops to future teachers who are studying education at various BC universities.

MEASUREMENTS

Measurement 1/ Complaints and tips received from InvestRight programs

Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. This network of information helps us disrupt, stop, and prevent these activities.

STATUS: NOT MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL	2009 ACTUAL	2010 TARGET	2010 ACTUAL	2011 TARGET
NUMBER OF COMPLAINTS AND TIPS RECEIVED AS A RESULT OF INVESTRIGHT INVESTOR EDUCATION AND INDUSTRY OUTREACH PROGRAMS					
	92	87	91	68	71[1]

1. The target number is set at 5% above the most recent actual, according to the criteria in our service plan. As a result, the 2009 and 2010 declines in complaints have decreased our target number to 71 in 2011.

Notes on measurement: We set targets according to the expectation that InvestRight education activities and policing agency referral programs will generate more leads over time. We track the number of enquiries, referrals, and complaints we receive from the public, media, and policing agencies.

Due to the implementation of a new enforcement tracking system, some leads may remain confidential and not be on the systems we track for this measure. However, this does not fully explain the significant drop in tips and complaints from previous years. In order to increase this measure, we are emphasizing reporting in our investor education outreach, not only from victims, but also from their friends and family. We are working at the grassroots level to encourage the reporting of suspected investment schemes in various BC communities.

Measurement 2/ Workshop participant application of investor education messages

We deliver investor education workshops to BC residents, primarily seniors. We report on the percentage of workshop participants who recall investor education messages about the Red Flags of fraudulent investments because it is a key learning outcome from our seminars.

STATUS: NOT MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL	2009 ACTUAL	2010 TARGET	2010 ACTUAL	2011 TARGET
PERCENTAGE OF WORKSHOP PARTICIPANTS WHO RECALL INVESTOR EDUCATION MESSAGES OF RED FLAGS					
	17%	11%	14%	11%	14%

Notes on measurement: We hire a firm to survey seminar participants after each presentation, and a second time six months later, to measure the percentage of workshop participants who recall our investor education messages. We discontinued three of four measurements for fiscal 2010 to focus on whether participants learn how to identify Red Flags of fraudulent investments. Our results remain unchanged from the last year.

Measurement 3/ Percentage of BC public aware of BCSC

BCSC investor education resources provide BC retail investors with valuable information to help them protect themselves from fraud and unsuitable investments. We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a possible fraud or unsuitable investment opportunity.

STATUS: NOT MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL	2009 ACTUAL	2010 TARGET	2010 ACTUAL	2011 TARGET
PERCENTAGE OF BC PUBLIC AWARE OF BCSC[1]	30%	43%	45%	36%	45%

1. The 30% figure came from a 2007 national investor study, and the 43% and 36% figures came from national investor surveys conducted in 2008 and 2009, respectively.

Notes on measurement: We collect data by asking awareness questions in investor surveys. We set our targets given that one-in-five BC adults are active investors. In the national CSA Investor Index 2009, the percentage of BC public aware of the BCSC was 36%. For the index, we also measured, for the first time, Canadian investors' awareness of provincial securities regulators, which was 46%. This number reflects awareness among those who are active investors and the audience we are targeting with our investor education materials and messages.

Going forward, we will re-evaluate this measure to determine whether we can survey awareness from year-to-year. Although this is valuable information for the BCSC, it is not cost-effective to conduct yearly annual national surveys.

GOAL 4 / ADVANCE COST-EFFECTIVE REGULATION

We apply a disciplined, problem-focused approach to dealing with market issues. Our approach to regulation focuses on problem definition, regulatory tool selection, and effective regulation design. We apply this approach in responding to local and national risks and opportunities. Our goal is to advance cost-effective regulation, largely through our CSA work, providing strong investor protection and market integrity for the least cost.

STRATEGIES

Strategy 1 / Work with government and other regulators to implement harmonized legislation and the passport system

We continue to lead work with government and other Canadian securities regulators to make the Canadian securities regulatory system more efficient and effective through the passport system. The passport system is based on highly harmonized and streamlined securities regulation across Canada.

This year we led the work to implement passport for registrants, which came into effect on September 28, 2009. The registration passport significantly streamlines the registration process for dealers and advisers and was implemented at the same time as the national rule harmonizing registration requirements. The new national instrument that created a Canada-wide registration regime involved an extensive consultation process that BCSC staff participated in from the beginning. Our staff continues to work with industry and stakeholders to ensure a smooth transition to the new system.

In addition, we worked with our CSA colleagues to develop a National Registration Search, which allows investors to search dealer and adviser registration in every jurisdiction in Canada, except in Ontario, where this information is available on the OSC Registrant List. We also led development and implementation of the SEDAR Regulatory Fee Guide, which, based on entered filing information, identifies the relevant regulatory filing fees in all Canadian jurisdictions.

Strategy 2 / Lead initiative to streamline delivery requirements in light of technological capabilities

Last year, the CSA began a three-year project to redevelop the systems used to facilitate the filing and delivery of mandated regulatory documents. This presented an opportunity for us to review a number of our disclosure and delivery requirements in light of current technologies to potentially reduce regulatory compliance costs, better inform investors, and improve regulatory effectiveness. We see this as a multi-year project that is strongly linked to our goal to advance cost-effective regulation.

This year, we assessed the required documents and filing methods of our most common filing submissions. We will share the assessment results with the national systems redesign working group for its consideration. We also drafted a set of questions and assessments to use in policy development that may help us better determine how the BCSC, market participants, issuers and stakeholders could more effectively require, provide, collect and use information and disclosure. Finally, we are working on a project that updates existing guidance on how those we regulate communicate with their stakeholders, with the aim of better enabling our regulated community to use the electronic tools and systems that are now available.

Strategy 3 / Implement new CSA IT governance model

We led the development of a new CSA IT governance model. The CSA adopted the new model, to manage IT-enabled projects and IT operations more cost-effectively, in fall 2009.

MEASUREMENTS

Measurement 1/ Average cost-effective regulation scorecard

To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems. We apply the scorecard to all CSA and local projects. For CSA projects, the scorecard reports on the extent to which we took steps to advocate our cost-effective regulation principles. For all projects, the scorecard gives credit for outcomes-focused results.

We commit ourselves to continually improving our execution relative to the standards we set for creating cost-effective regulations.

STATUS: NOT MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL	2009 ACTUAL	2010 TARGET	2010 ACTUAL	2011 TARGET
AVERAGE SCORE ON COST-EFFECTIVE REGULATION SCORECARD					
	88%	89%	90%	88%	90%

Notes on measurement: We report the average score of all the projects completed each year. This year we had five policy projects that qualified for review, four of which were national rules. We will not include rules that we adopt purely to harmonize with other jurisdictions in this analysis. The process the CSA uses to create harmonization rules does not consider problem definition or alternative tools. Our score means that on average we hit the standards on the scorecard for all but two areas. The one local rule met all of our standards.

Measurement 2/ Average approved project post-implementation score

For this measurement, we define a "project" as an initiative that either costs more than $10,000 or takes more than 25 person days. We justify these local projects in writing and include a description of the expected benefits. Some projects forecast a return on investment generated by cost savings or cost avoidance that "pays" for the project. Other projects promise efficiency improvements or improved quality, accuracy, or control.

STATUS: MET	RESULTS AND TARGETS				
FISCAL	2008 ACTUAL	2009 ACTUAL	2010 TARGET	2010 ACTUAL	2011 TARGET
AVERAGE APPROVED PROJECT POST-IMPLEMENTATION SCORE					
	100%	95%	80%	83%	80%

Notes on measurement: This year Information Management measured three projects.

We assess each local IT-enabled project at a predetermined time after the project's completion and score the project's success relative to its proposed benefits. This assessment normally occurs after six months, but for reasons of complexity or novelty may be conducted as early as three months or as late as 12 months after a project completes.

FINANCIAL REPORT

AUDITED FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED MARCH 31, 2010

We prepared this discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 14, 2010. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2010.

We prepared the financial information in this report in accordance with Canadian generally accepted accounting principles.

We report in Canadian dollars.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We believe that our internal practices should, when relevant, conform to the standards we require of public companies. Recognizing the importance of high quality, reliable and transparent financial reporting, the Audit Committee and management decided to implement the reporting issuer provisions of National Instrument 52-109 with respect to internal control over financial reporting (ICFR). This led to a process of research and planning, identification of risk areas, review and documentation of controls, testing of controls for effectiveness and identification of areas for improvement. This process involved BCSC staff and management, with the assistance of external resources.

We have revised our disclosure of management's responsibility for the financial statements to include an appropriate certification. Our evaluation of the effectiveness of ICFR uncovered one control gap with the potential to materially affect ICFR. The gap is an outdated business continuity plan. We are now updating the plan.

NATURE OF OPERATIONS

We are the provincial crown corporation responsible for regulating BC capital market activity.

We do not receive transfers from government tax revenues. Instead, fees charged to securities market participants fund our operations. Revenues fluctuate with market activity while most of our costs are fixed. Salaries, benefits, and occupancy costs account for about 85% of operating expenses.

As a government agency, we are exempt from income taxes and the GST. Effective July 1, 2010, we will be subject to the HST. The net effect of this change is not determinable at this time.

We focus our staff effort (with overhead allocated proportionately) on our strategic goals:

STRATEGIC GOAL	FISCAL 2010	FISCAL 2009
Promote a culture of compliance	36%	36%
Act decisively against misconduct	38%	37%
Educate investors	9%	10%
Advance cost effective regulation	17%	17%

REVENUE SOURCES (WE DISCUSS EDUCATION RESERVE REVENUES SEPARATELY, ON PAGE 37)

More than 95% of our operational funding comes from filing, registration, and application fees paid by market participants under the *Securities Act*. The remainder of our operational funding comes from investment income and enforcement cost recoveries, if any.

A large part of our fee revenue comes from fees paid by mutual funds to distribute securities and file financial statements, and fees paid by the five largest Canadian banks to register their representatives.

Our fee model is premised on generating sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and may incur operating deficits during bear market periods. Our fee model is working as designed.

We collect the following fees:

		Proportion of fee revenue	
CATEGORY	SOURCE	FISCAL 2010	FISCAL 2009
Distribution fees	Public companies, private companies and mutual funds, to file disclosure documents	53%	53%
Registration fees	Firms and individuals, to register with us to sell or advise on securities	31%	32%
Financial filing fees	Public companies and mutual funds, to file annual and interim financial statements	15%	14%
Other fees	Market participants, primarily to request *Securities Act* exemptions	1%	1%

Distribution fees

Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from prospectuses[1], exempt distribution reports[2] and annual information forms[3]. Issuers pay fees to file these documents. When gross sales under a prospectus and an exempt offering exceed $7.5 million and $0.3 million, respectively, an additional fee, called a "percent of proceeds fee," may be payable.

Our revenue from distribution fees falls significantly during weaker markets because fees related to gross sales account for about half of distribution fee revenue.

1. Companies and mutual funds must normally prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status, and management of the company or fund.

2. Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) permit investors to have access to all information about the proposed transaction that could affect their purchase decision.

3. Annual information forms give current details of the operations, financial status, and management of the company.

More than half of distribution fee revenue relates to fees from mutual fund sales in BC. We receive the majority of revenue related to mutual fund sales in arrears, so distribution revenue changes lag market events.

Registration fees

Firms and individuals register with us to sell or advise on securities. The number of registered firms has not grown significantly in the last several years. In contrast, individual registrations grow modestly most years.

Financial filing fees

Companies and mutual funds (reporting issuers) pay a fee to file their financial statements, and pay a higher fee if they file late. The reporting issuer population has increased slowly over the last several years.

Other fees

Other fees are mostly exemption application filing fees. Other fees account for a small proportion of fee revenue and are not growing.

ENFORCEMENT COST RECOVERIES

Enforcement cost recoveries are comprised of hearing cost recoveries and amounts designated under settlements as cost recoveries. We no longer assess cost recoveries, but vigorously pursue outstanding amounts. Collecting cost recoveries is difficult because respondents often have limited assets, poor credit or have left BC. Since our incorporation on April 1, 1995, we have collected $4.1 million (68%) of $6.0 million assessed. We have not recognized as revenue any of the outstanding $1.9 million because collectability is unlikely.

INVESTMENT INCOME

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. Our conservative approach, investing in highly liquid, high quality money market instruments and government securities, generates modest returns. We mix Education reserve funds with operating funds for investment purposes, so we allocate a portion of our investment income to the Education reserve.

EXPENSES

Salaries, benefits, and occupancy costs account for about 85% of our operating expenses.

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual budget approved by the Board, monthly budget variance reporting to management, requiring Board approval of significant unbudgeted expenses, and continually improving our processes.

CONSOLIDATED HIGHLIGHTS

	THREE MONTHS ENDED MARCH 31			FOR THE YEAR ENDED MARCH 31		
(millions)	2010	BUDGET	2009	2010	BUDGET	2009
OPERATIONS						
REVENUES						
Regulatory fees	7.9	6.2	7.2	30.8	27.4	30.5
Investment income and cost recoveries	0.1	0.1	0.1	0.3	0.5	1.2
	8.0	6.4	7.3	31.1	27.9	31.6
EXPENSES						
Salaries and benefits	6.0	5.6	6.0	23.1	22.5	22.6
Other expenses	1.9	1.7	2.1	6.9	7.0	7.2
	7.8	7.3	8.1	29.9	29.5	29.8
Excess (deficiency) of revenue - operations	**0.2**	**(1.0)**	**(0.8)**	**1.2**	**(1.7)**	**1.9**
EDUCATION RESERVE						
Enforcement sanctions and investment income	–	0.1	0.2	0.3	0.2	0.4
Education program disbursements	0.4	0.5	0.1	0.9	1.2	0.7
Deficiency of revenue - education	**(0.4)**	**(0.4)**	**–**	**(0.6)**	**(1.0)**	**(0.2)**
CONSOLIDATED EXCESS (DEFICIENCY) OF REVENUE	(0.2)	(1.4)	(0.8)	0.6	(2.6)	1.6

ACCUMULATED SURPLUSES	MAR '10	MAR '09
General	10.3	9.1
Fee stabilization reserve	15.0	15.0
Education reserve	3.1	3.7
	28.3	**27.8**

Quarterly consolidated deficiency was $0.2 million, $0.6 million better than last year and $1.2 million better than expected. The improvement was due primarily to higher than expected securities distribution activity.

Global economic events reduced BC capital market activity in the fall of 2008. Prospectus and other distribution activity dropped significantly and remained stagnant for several quarters. In preparing our fiscal 2010 budget, we lowered our revenue projections to reflect a much lower level of expected market activity, and lower investment income. As a result, we anticipated running operating deficits in each quarter of fiscal 2010. Investment income did decline, and more than expected. However, distribution revenue did not decline, buoyed by strong non-mutual fund and exempt market activity beginning in the second quarter.

Quarterly Education reserve activities generated a $0.4 million deficit, worse than the comparative quarter but in line with expectations. Most education spending relates to the development of financial literacy materials and an ongoing radio campaign.

Consolidated excess revenue for the year was $0.6 million, a $1.1 million decrease from last year but $3.2 million ahead of budget.

Operating results were negatively impacted by very weak market activity in the first quarter, by lower investment returns due to historically low interest rates, and by higher salary expenses. However, operating results for the year are $2.9 million stronger than anticipated, primarily due to higher than expected distribution activity in the second, third and fourth quarters.

Education spending for the year increased $0.3 million but was $0.3 million below expectations. The increase relates primarily to a redesign of financial literacy materials for youth. That work, which we had originally expected to complete in fiscal 2010, will continue into fiscal 2011.

We ended the year with $36.5 million in cash and cash equivalents, a $1.1 million (3%) increase from last year. Fiscal 2010 excess revenue net of depreciation, a non-cash item, offset accounts receivable increases and $0.3 million of capital additions.

DETAILED ANALYSIS OF QUARTERLY OPERATING RESULTS

(See page 37 for Education reserve discussion)

Quarter ended March 31

	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
(thousands)	MAR. '10	BUDGET	VARIANCE	%	MAR. '10	MAR. '09	VARIANCE	%
OPERATIONS								
Revenues	$ 8,014	$ 6,356	$ 1,658	26%	$ 8,014	$ 7,328	$ 686	9%
Expenses	7,829	7,317	512	7%	7,829	8,119	(290)	-4%
Excess (deficiency)	$ 185	$ (961)	$ 1,146	119%	$ 185	$ (791)	$ 976	123%

Quarterly operating results generated a $0.2 million surplus, $1.0 million higher than last year and $1.1 million better than expected. We expected distribution filing activity to decline significantly from the prior year due to soft market conditions. However, market activity was much stronger than anticipated and distribution fee revenue increased. This increase in revenue was partially offset by lower investment income. Expenses were lower than the prior year due to lower depreciation and software licensing costs. Expenses were higher than expected primarily due to a lower staff vacancy rate and higher legal consulting costs. We discuss revenues and expenses in more detail below.

QUARTERLY REVENUE

Quarter ended March 31

		ACTUAL VERSUS BUDGET			ACTUAL VERSUS LAST YEAR			
(thousands)	MAR. '10	BUDGET	VARIANCE	%	MAR. '10	MAR. '09	VARIANCE	%
OPERATIONS								
Distribution	$ 3,741	$ 2,397	$ 1,344	56%	$ 3,741	$ 3,131	$ 610	19%
Registration	2,185	2,157	28	1%	2,185	2,143	42	2%
Fin. Filing	1,951	1,639	312	19%	1,951	1,880	71	4%
Other	57	50	7	14%	57	41	16	39%
Inv. Income	80	113	(33)	-29%	80	133	(53)	-40%
	$ 8,014	$ 6,356	$ 1,658	26%	$ 8,014	$ 7,328	$ 686	9%

Quarterly operating revenue was $1.7 million ahead of budget:

- Distribution revenue was $1.3 million higher than expected. We expected prospectus and exempt distribution fees to fall. Instead, exempt distribution and non-mutual fund prospectus activity increased significantly, while mutual fund activity fell less than expected.
- Financial filing revenue was $0.3 million higher than expected, due primarily to the timing of financial filings.

Quarterly operating revenue increased $0.7 million from the prior year:

- Distribution revenue increased $0.6 million due primarily to $0.3 million (33%) higher exempt distribution report fees, $0.1 million (24%) higher non-mutual fund prospectus fees, and $0.2 million (27%) higher annual information form fees. Capital raising activity in the mining sector drove much of the increases in exempt market and non-mutual fund prospectus fees. Fees from mutual fund prospectuses declined 3% to $0.8 million.

QUARTERLY EXPENSES

Quarter ended March 31

		ACTUAL VERSUS BUDGET			ACTUAL VERSUS LAST YEAR			
(thousands)	MAR. '10	BUDGET	VARIANCE	%	MAR. '10	MAR. '09	VARIANCE	%
OPERATIONS								
Salaries	$ 5,970	$ 5,603	$ 367	7%	$ 5,970	$ 5,971	$ (1)	0%
Prof. Fees	597	377	220	58%	597	603	(6)	-1%
Deprec.	255	263	(8)	-3%	255	386	(131)	-34%
Occupancy	464	537	(73)	-14%	464	483	(19)	-4%
Info. Mgmt.	148	165	(17)	-10%	148	308	(160)	-52%
Other	395	372	23	6%	395	368	27	7%
	$ 7,829	$ 7,317	$ 512	7%	$ 7,829	$ 8,119	$ (290)	-4%

Quarterly operating expenses were $0.5 million higher than budget:

- Salary costs were $0.4 million higher than expected due primarily to a lower vacancy rate.
- Professional fees were $0.2 million higher than expected due to higher enforcement litigation and national project costs.

Quarterly operating expenses decreased $0.3 million over the prior year:

- Depreciation is $0.1 million lower than the comparative quarter due to lower additions.
- Information management expenses are $0.2 million lower due to lower records storage and software licensing costs.

DETAILED ANALYSIS OF OPERATING RESULTS FOR THE YEAR

(We discuss Education reserve results separately, on page 37)

Year Ended March 31

		ACTUAL VERSUS BUDGET			ACTUAL VERSUS LAST YEAR			
(thousands)	MAR. '10	BUDGET	VARIANCE	%	MAR. '10	MAR. '09	VARIANCE	%
OPERATIONS								
Revenues	$ 31,120	$ 27,850	$ 3,270	12%	$ 31,120	$ 31,636	$ (516)	-2%
Expenses	29,933	29,535	398	1%	29,933	29,776	157	1%
Excess (deficiency)	$ 1,187	$ (1,685)	$ 2,872	170%	$ 1,187	$ 1,860	$ (673)	-36%

EXCESS OF REVENUE

Excess revenue from operations fell $0.7 million (36%) versus last year, to $1.2 million. Results were $2.9 million higher than budgeted. In preparing our budget for fiscal 2010, we lowered our revenue projections to reflect a much lower level of expected market activity. Mutual fund activity fell. However, market activity recovered much more quickly than anticipated. Operating expenses increased $0.2 million (1%) versus last year, to $29.9 million. We discuss revenues and expenses in more detail below.

REVENUES

Year Ended March 31

		ACTUAL VERSUS BUDGET			ACTUAL VERSUS LAST YEAR			
(thousands)	MAR. '10	BUDGET	VARIANCE	%	MAR. '10	MAR. '09	VARIANCE	%
OPERATIONS								
Distribution	$ 16,249	$ 12,900	$ 3,349	26%	$ 16,249	$ 16,019	$ 230	1%
Registration	9,619	9,700	(81)	-1%	9,619	9,636	(17)	0%
Fin. Filing	4,742	4,600	142	3%	4,742	4,599	143	3%
Other	227	200	27	14%	227	252	(25)	-10%
Inv. Income	283	450	(167)	-37%	283	1,130	(847)	-75%
	$ 31,120	$ 27,850	$ 3,270	12%	$ 31,120	$ 31,636	$ (516)	-2%

Operating revenue was $3.3 million higher than budget:

- Distribution revenue was $3.3 million higher than expected. We expected a significant drop in market activity during fiscal 2010. Instead, non-mutual fund prospectus and exempt distribution activity increased while mutual fund prospectus proceed fees did not decline as much as expected. Fees related to non-mutual fund prospectus, exempt distribution, and mutual fund prospectus filings are $1.6 million, $1.2 million, and $0.1 million higher than expected, respectively. Annual information form fees and prospectus amendment fees are each $0.2 million higher than expected.
- Financial filing revenue was $0.1 million higher than expected due to the timing of filings.
- Investment income was $0.2 million lower than expected because of lower returns achieved in our bond portfolio and lower interest rates earned on cash deposits and short-term holdings.

Operating revenue was $0.5 million lower than the prior year:

- Investment income decreased $0.8 million because of lower returns achieved in our bond portfolio and lower interest rates earned on cash deposits and short-term holdings. The effective yield on our investments was 0.9% in the current year, versus 3.7% for the prior year.
- Distribution revenue increased $0.2 million to $16.2 million. Every category of distribution revenue increased significantly except fees related to mutual fund distributions. As noted above, most of the increase in market activity relates to robust capital raising activity in the mining sector. Fees related to non-mutual fund prospectus and exempt distribution filings increased $0.6 million (20%) and $0.3 million (14%), respectively. Fees related to annual information form and prospectus amendment filings increased $0.3 million (14%) and $0.1 million (48%), respectively. Mutual fund prospectus fees declined $1.1 million (12%). Mutual fund distribution activity remained depressed through the first and second quarters of 2010 before beginning to recover in the last two quarters of the year.

EXPENSES

Year Ended March 31

	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
(thousands)	MAR. '10	BUDGET	VARIANCE	%	MAR. '10	MAR. '09	VARIANCE	%
OPERATIONS								
Salaries	$ 23,066	$ 22,500	$ 566	3%	$ 23,066	$ 22,576	$ 490	2%
Prof. Fees	2,066	1,600	466	29%	2,066	2,032	34	2%
Deprec.	1,038	1,050	(12)	-1%	1,038	1,000	38	4%
Occupancy	1,967	2,150	(183)	-9%	1,967	1,977	(10)	-1%
Info. Mgmt.	579	750	(171)	-23%	579	798	(219)	-27%
Other	1,217	1,485	(268)	-18%	1,217	1,393	(176)	-13%
	$ 29,933	$ 29,535	$ 398	1%	$ 29,933	$ 29,776	$ 157	1%

Operating expenses were $0.4 million (1%) higher than budget:

- Salary costs were $0.6 million higher than expected due primarily to a lower than expected vacancy rate and higher severance costs.
- Professional fees were $0.5 million higher than expected due to higher enforcement litigation and national project costs.
- Occupancy costs were $0.2 million lower than plan due to a reduction in building operating costs.
- Information management costs were $0.2 million lower than plan primarily due to lower enforcement records storage costs and lower software licensing costs.
- Other expenses were $0.3 million lower than plan due to lower external communication ($0.2 million) and training costs ($0.1 million). External communication costs declined because of lower securities policy publication costs and lower "Capital Ideas" industry conference expenses.

Operating expenses increased $0.2 million from the prior year:

- Salaries increased $0.5 million (2%). Average staff size increased 3% due to new compliance and investigation positions. Position vacancies declined. Performance-based merit increases effective April 1, 2009 averaged 2.5%.
- Information management expenses were $0.2 million lower primarily due to lower records storage costs and software licensing costs.
- Other expenses were $0.2 million lower primarily due to lower external communications and training costs as noted above.

SELECTED QUARTERLY INFORMATION

Operating revenues normally exceed operating expenses in quarters one and three, and operating expenses normally exceed operating revenues in quarters two and four, because of filing patterns. Due to weak market activity and higher operating costs, operating expenses exceeded operating revenue in all but the first quarter of fiscal 2009. Improving market activity in fiscal 2010 resulted in operating revenues exceeding operating expenses in all but the third quarter.

Education revenues and disbursements depend on the timing and nature of enforcement actions and education programs, and vary every period.

	FISCAL 2010				FISCAL 2009			
(thousands)	MAR	DEC	SEPT	JUNE	MAR	DEC	SEPT	JUNE
OPERATIONS								
Revenues	$ 8,014	$ 6,948	$ 7,345	$ 8,812	$ 7,328	$ 7,049	$ 6,861	$ 10,399
Expenses	7,829	7,382	7,304	7,417	8,119	7,283	7,134	7,240
Excess (deficiency)	$ 185	$ (434)	$ 41	$ 1,395	$ (791)	$ (234)	$ (273)	$ 3,159
EDUCATION RESERVE								
Revenues	$ 32	$ 31	$ 219	$ 7	$ 159	$ 80	$ 110	$ 93
Disbursements	382	215	124	191	146	231	125	152
Excess (deficiency)	$ (350)	$ (184)	$ 95	$ (184)	$ 13	$ (151)	$ (15)	$ (59)
CONSOLIDATED								
Excess (deficiency)	$ (165)	$ (618)	$ 136	$ 1,211	$ (778)	$ (385)	$ (288)	$ 3,100

EDUCATION RESERVE

Reserve purpose

We use Education reserve funds only to educate securities market participants and the public about investing, financial matters, or the operation and regulation of securities markets. We fund education projects both directly and in partnership with others. We evaluate each proposed project against criteria that assess a potential partner's background and experience, the need for the project, the project's design and success measures, and the degree to which the project's goals align with our service and operating plans.

Revenue sources

We appropriate enforcement sanction revenue to our Education reserve. We mix Education reserve funds with other funds for investment purposes, so we allocate a portion of investment portfolio income to the Education reserve.

Enforcement sanctions

We order administrative penalties and disgorgements[1] under the *Securities Act*. We also negotiate settlement amounts. Enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods. Of the $79.8 million sanctioned since our incorporation on April 1, 1995, $29.6 million relates to disgorgement orders.

We recognize in revenue sanctions we determine are collectible. We then appropriate these revenues to our Education reserve.

Collecting sanctions is difficult because respondents often have limited assets, have poor credit, or have left BC. Since our incorporation in April 1995, we have collected $9.4 million (12%) of $79.8 million sanctioned and pursue outstanding amounts vigorously. However, of the $70.4 million outstanding, only $0.1 million is likely collectible and accrued in our financial statements. About 84% of the $70.4 million outstanding relates to two cases.

Investment income

Our prime investment considerations for Education reserve funds are capital preservation and sufficient liquidity to meet education program commitments. Our conservative approach, investing in highly liquid, high quality money market instruments and government securities, generates modest returns.

EDUCATION RESERVE REVENUE AND EXPENSE SUMMARY

	QUARTER ENDED MARCH 31		FOR THE YEAR ENDED MARCH 31	
(thousands)	2010	2009	2010	2009
ENFORCEMENT SANCTIONS				
Current period sanctions	$ 29	$ 167	$ 42,291	$ 678
Uncollectible portion of sanctions not recognized as revenue	–	(70)	(42,037)	(512)
Recovery of uncollectible sanctions from prior periods	–	2	–	97
	$ 29	$ 99	$ 254	$ 263
Investment income allocated to education reserve	3	60	34	180
Total revenue appropriated to the education reserve	$ 32	$ 159	$ 288	$ 443
Education reserve disbursements	382	146	912	654
Net change in education reserve	$ (350)	$ 13	$ (624)	$ (211)
Education reserve ending balance	$ 3,054	$ 3,677	$ 3,054	$ 3,677

1. *Disgorgement is designed to return ill-gotten gains to victims. We allocate to the Education reserve disgorgements not claimed within three years of collection.*

Education revenue is volatile and varies from period to period, for the reasons discussed above.

During the year, following a hearing, a commission panel permanently banned four BC residents from the market, and ordered them to pay $26 million in penalties and to disgorge $16 million for their misconduct. We are vigorously pursuing collection of these amounts, but the likelihood of collection is low, so we have not recognized these amounts in revenue.

For the quarter, the net education reserve outflow of $0.4 million was as expected. Education expenses related primarily to a continuing radio campaign, updating materials for a high school education program (Planning 10) and Investright.org website enhancements.

For the year, the net education reserve outflow of $0.6 million was lower than expected, but higher than the comparative period. Education expenses related primarily to projects noted above. Some Planning 10 expenses will occur in fiscal 2011 rather than fiscal 2010.

FINANCIAL POSITION AND LIQUIDITY

Use of financial instruments

The principal financial instruments affecting our financial condition and results of operations are cash and short-term investments and investments held for designated purposes. Our investments do not expose the BCSC to material credit or market risk because we invest in liquid, high quality money market instruments and government securities. Liquidity risk is low because our investments are in pooled fund units redeemable on demand and without penalty. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC.

Liquidity

Cash flow was positive for the year, at $1.1 million (fiscal 2009 - $2.4 million). Cash flow was lower than the previous year due primarily to lower investment income and higher staffing costs from salary increases and new positions. Capital purchases declined $0.4 million because we reduced capital spending to lessen the impact of the market downturn. We ended the year with $36.5 million (fiscal 2009 - $35.4 million) of cash and cash equivalents.

As discussed, our fee model results in surpluses and deficits over the business cycle because revenues fluctuate while our costs are mainly fixed. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn:

- our cash equivalent assets are redeemable immediately without penalty
- we have working capital of $8.4 million (March 31, 2009 - $6.5 million)
- we can draw on our $15 million fee stabilization reserve, if necessary

Assets

Amounts receivable increased to $0.7 million (March 31, 2009 - $0.3 million), due in part to cost recoveries due from the CSTO (Canadian Securities Regulation Regime Transition Office) for employee secondments, start-up expenses, and procurement and accounting support on a cost-recovery basis. The remainder of the receivables increase is due primarily to an increase in accrued late insider report filing fees, due to the timing of billing.

Capital assets were $1.9 million (March 31, 2009 - $2.7 million). The decrease is due to amortization ($1.0 million) being only partly offset by capital purchases ($0.3 million).

Liabilities

Accounts payable and accrued liabilities remained flat.

Accrued salaries increased $0.2 million to $2.9 million (March 31, 2009 - $2.7 million). We paid out fiscal 2009 performance incentives in May 2009 and accrued for fiscal 2010 performance incentives.

Deferred revenue increased to $6.7 million (March 31, 2009 - $6.6 million). Deferred revenue is calendar year registration fees received in advance and amortized to income over the calendar year to which they relate.

Contractual obligations

Our significant contractual obligations at March 31, 2010 are:

(millions)	TOTAL	< 1 YEAR	2 - 3 YEARS	4 - 5 YEARS	> 5 YEARS
Rent and operating costs (net of sublease recoveries)	3.6	2.2	1.4	–	–

RISKS AND OPPORTUNITIES

Securities regulatory reform

We have been supporting government's work to implement the regulatory reforms outlined in the September 2004 Provincial / Territorial Memorandum of Understanding Regarding Securities Regulation (Passport MOU) among all provinces and territories, except Ontario. The Passport MOU proposed a single window access to capital markets in participating provinces and territories, and a review of the regulatory fees charged in the context of the passport system. Implementation of Passport-related changes did not materially affect operations.

The debate on restructuring Canadian securities regulation continues. We expect the BCSC to remain a going concern while participating governments consider whether to implement a different regulatory structure.

Fee revenue

We fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We continuously monitor our fee structure and may propose changes to government to ensure we break even over the business cycle.

Reliance on CDS Inc.

Under various agreements with the CSA that end on October 31, 2011, CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system. However, should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

National electronic filing systems and operating agreements

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (shortfall). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (surplus) to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost (expense) variances equally.

The OSC is holding $49.1 million (March 2009 - $35.2 million) in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to March 31, 2010. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

In fiscal 2010, the CSA began a national project to redevelop SEDAR and SEDI. As at March 31, 2010, payments related to the systems redevelopment project totalled $82,184. The CSA has entered into a professional services contract, totalling $750,000, to design a national filing system Enterprise Architecture. The contractor (Fujitsu) has submitted an invoice for $187,600.

ACCOUNTING POLICY CHANGES

Effective April 1, 2009, we retroactively adopted new handbook section 3064 "Goodwill and Intangible Assets". We describe this standard and the impact its adoption has on our financial disclosure in note 2 of the financial statements.

Effective January 1, 2010, we adopted amendments to Section 3862 "Financial Instruments – Disclosure". The amendments add disclosures about fair value measurements for financial instruments and liquidity risk. We added the required disclosures to note 3 of the financial statements.

OUTLOOK

The actual impact of the market downturn on operations was not as severe as we forecast in our updated fiscal 2010 Service Plan. We expect market activity to retreat modestly in fiscal 2011 before strengthening in subsequent years. We plan no significant staff increases.

Selected annual information

The following table summarizes actual and expected results of operations, the education reserve, and financial position by year. The information below, including forecast information, was prepared based on Canadian Generally Accepted Accounting Principles.

	AUDITED				AUDITED	BUDGET	FORECAST	PROJECTION	
(millions)	2006	2007	2008	2009	2010	2010	2011	2012	2013
OPERATIONS									
REVENUES									
Regulatory fees	28.2	30.5	32.5	30.5	30.8	27.4	30.0	31.5	33.8
Investment income and cost recoveries	0.5	1.1	1.3	1.1	0.3	0.5	0.5	1.0	1.3
	28.7	31.6	33.8	31.6	31.1	27.9	30.5	32.6	35.1
EXPENSES									
Salaries and benefits	20.2	21.2	21.6	22.6	23.1	22.5	24.1	24.3	25.5
Other operating expenses	7.2	7.3	6.8	7.2	6.9	7.0	7.4	7.5	7.7
	27.4	28.5	28.4	29.8	29.9	29.5	31.5	31.8	33.2
Excess (deficiency) of revenue - operations	**1.3**	**3.1**	**5.4**	**1.9**	**1.2**	**(1.7)**	**(1.1)**	**0.8**	**2.0**
EDUCATION RESERVE									
REVENUES									
Enforcement sanctions and investment income	0.8	1.5	1.1	0.4	0.3	0.2	0.4	0.4	0.4
Education program disbursements	1.2	0.6	0.5	0.7	0.9	1.2	0.9	0.9	0.9
Excess (deficiency) of revenue - education	**(0.4)**	**0.9**	**0.6**	**(0.2)**	**(0.6)**	**(1.0)**	**(0.5)**	**(0.5)**	**(0.5)**
Consolidated excess (deficiency) of revenue	**0.9**	**4.0**	**6.0**	**1.6**	**0.6**	**(2.6)**	**(1.6)**	**0.3**	**1.5**
ASSETS									
General surplus	1.7	3.8	7.2	9.1	10.3	7.4	9.2	10.0	12.0
Fee stabilization reserve	12.0	13.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Education reserve	2.4	3.3	3.9	3.7	3.1	2.7	2.5	1.9	1.4
	16.1	20.1	26.1	27.8	28.3	25.1	26.7	27.0	28.4
Total assets	25.8	30.0	36.7	38.7	39.6	35.9	37.4	37.9	39.7
Debt	–	–	–	–	–	–	–	–	–
Capital additions	0.3	0.2	0.7	0.7	0.3	0.3	0.5	0.7	0.7
KEY STATISTICS									
Fee revenue growth rate	6%	8%	6%	-6%	1%	-10%	-3%	5%	7%
Operating expense growth rate	3%	4%	0%	5%	1%	-1%	5%	1%	4%

MD&A SUPPLEMENT – COMPENSATION DISCLOSURE

FOR THE YEAR ENDED MARCH 31, 2010

COMPENSATION STRUCTURE

We are accountable to the provincial legislature and the public through the Minister of Finance. Our compensation plan requires *Public Sector Employers' Council* approval.

The BCSC manages its compensation through effective internal governance policies (see page 9 for more information) and practices, including as follows:

- Our Audit and Human Resources committees comprise only independent commissioners appointed by the Lieutenant Governor-in-Council
- The Audit Committee oversees the BCSC's annual budget and the Human Resources Committee oversees the design and administration of BCSC performance management and compensation practices
- Semi-annually, the Human Resources Committee reviews the chair's performance against her objectives. In consultation with the chair, the Human Resources Committee reviews the performance of other executives and senior managers
- The Human Resources Committee recommends, for board approval, the chair's incentive compensation for the preceding year and the chair's salary for the ensuing year
- The chair and executive director consult the Human Resources Committee on the incentive compensation and salaries of the other executives and senior managers

We compete with law and accounting firms, the securities industry, and other securities regulators to hire and retain professional staff with securities market expertise.

COMPENSATION PHILOSOPHY

Our goal is median compensation. We strive to offer remuneration comparable to that offered by competing organizations. To remain competitive, we conduct annual salary surveys and propose adjustments when surveyed position salaries are significantly below the median. Like most of our competitors, our compensation plan includes performance-based incentives.

INCENTIVE PRINCIPLES

Employees participate in an incentive plan, following these principles:

- Incentive awards depend on our ability to fund them
- Incentives are based on individual, divisional and commission performance

INCENTIVE TARGETS

Incentive targets vary depending on positions' potential impact on commission performance. Named officers (Chair, Vice Chair, Director of Enforcement, Director of Corporate Finance, and General Counsel) have incentive targets ranging from 15% - 40%. In addition, a personal achievement factor, ranging from nil to 1.75, is applied. In some cases, total compensation is subject to government compensation maximums.

MD&A SUPPLEMENT – COMPENSATION DISCLOSURE

FOR THE YEAR ENDED MARCH 31, 2010

FISCAL 2010 COMPENSATION SUMMARY

POSITION	NAME	BASE	INCENTIVE	PENSION	OTHER[5]	2010	2009	2008	MEETINGS ATTENDED[6]
EXECUTIVE COMMISSIONERS									
Chair[7]	Brenda M. Leong	319,636	125,853	32,151	21,611	499,251	388,132	379,415	7
Chair[8]	Douglas M. Hyndman	100,131	–	10,346	11,621	122,098	549,092	543,957	8
Vice Chair[9]	Brent W. Aitken	326,384	122,267	–	16,037	464,688	417,647	361,744	18
SENIOR MANAGEMENT									
Director of Enforcement	Langley E. Evans	204,728	40,765	20,338	12,167	277,998	262,431	242,345	N/A
Director of Corporate Finance	Martin D.C. Eady	194,839	38,334	19,321	11,486	263,980	245,557	230,051	N/A
General Counsel	David M. Thompson	177,350	26,934	17,524	17,152	238,960	238,014	222,721	N/A

POSITION	NAME	FEES	OTHER[10]	2010	2009	2008	MEETINGS ATTENDED
INDEPENDENT COMMISSIONERS							
Commissioner	Bradley Doney	64,563	2,642	67,204	41,968	–	17
Commissioner	Kenneth G. Hanna	61,450	–	61,450	70,275	39,950	17
Commissioner	Don Rowlatt	66,375	884	67,259	42,132	–	18
Commissioner	David J. Smith	75,650	–	75,650	59,625	36,300	19
Commissioner	Shelley C. Williams	64,925	1,965	67,515	55,842	–	19
Commissioner	Suzanne K. Wiltshire	64,125	2,557	66,682	73,209	51,424	18

Compensation consultants

During the year, we hired Western Compensation & Benefits Consultants to perform a salary survey.

5. *Other compensation includes long-term disability plan premiums, Canada Pension Plan premiums, transportation allowances, parking and transit, extended-health and dental plan premiums, professional membership fees, Medical Services Plan premiums, Employment Insurance premiums, Workers Compensation Plan premiums, group life insurance premiums, fitness reimbursements, and imputed interest on interest-free computer purchase loans.*

6. *During fiscal 2010, the Board scheduled, and held during the year, 12 regular monthly board meetings, 2 SRO meetings, 5 special meetings.*

7. *Ms. Leong was Executive Director until appointed Chair on October 13, 2009.*

8. *Mr. Hyndman was Chair until his secondment to the CSTO on July 13, 2009.*

9. *Mr. Aitken was acting Chair July 13, 2009 to October 12, 2009. He did not participate in our incentive program in fiscal 2008.*

10. *Other compensation is Canada Pension Plan premiums.*

MANAGEMENT'S RESPONSIBILITY AND CERTIFICATION

Management is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate. Management has prepared the financial statements according to Canadian generally accepted accounting principles (GAAP).

We certify that:

- we oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP
- we directed the evaluation of the effectiveness of these internal controls over financial reporting (ICFR) and, except for the gap disclosed in the Management's Discussion and Analysis (MD&A), we are not aware of any ICFR gap that has or is likely to materially affect our ICFR
- we have reviewed the financial statements and other information in this annual report (Reports)
- we believe the Reports reflect all material facts for the period they cover
- we do not believe the Reports misstate any material fact

We believe that the financial statements and other financial information in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the British Columbia Securities Commission (the "BCSC") as of the dates and for the periods presented. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. We do not believe it is likely that any differences will be material.

The Board is responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has created an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

The Board is also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and has appointed an independent audit committee to oversee the financial reporting process. The committee members are independent commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

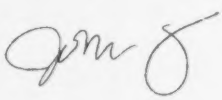
- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the commission's financial position, results of operations and cash flows in accordance with accounting principles that are generally accepted in Canada. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the Board approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.

BRENDA M. LEONG
Chair and Chief Executive Officer



JOHN R. HINZE, CA
Director, Chief Financial Officer

Report of the Auditor General of British Columbia

To the Commissioners of
the British Columbia Securities Commission, and

To the Minister of Finance and Deputy Premier
Province of British Columbia:

I have audited the balance sheet of the *British Columbia Securities Commission* as at March 31, 2010, and the statements of operations and comprehensive income, of surpluses and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Securities Commission* as at March 31, 2010, and the results of its operations and comprehensive income, its surpluses and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 14, 2010

John Doyle, MBA, CA
Auditor General

BALANCE SHEET

At March 31, 2010 (audited)
British Columbia Securities Commission

	MARCH 31, 2010	MARCH 31, 2009
ASSETS		
Current assets:		
Cash and short term investments (note 4)	$ 18,490,586	$ 16,724,160
Amounts receivable (note 5)	734,239	311,319
Prepaid expenses (note 6)	367,613	303,889
	19,592,438	17,339,368
Investments held for designated purposes (note 7)	18,053,831	18,677,388
Capital assets (note 8)		
Tangible assets	1,588,951	2,464,057
Intangible assets	316,820	216,817
	1,905,771	2,680,874
	$ 39,552,040	$ 38,697,630
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 711,337	$ 776,199
Accrued salaries	2,909,267	2,732,055
Deferred registration fee revenue	6,701,449	6,599,003
Employee leave liability (note 9)	853,821	753,377
	11,175,874	10,860,634
Deferred rent	40,778	65,245
SURPLUSES		
General	10,281,557	9,094,363
Fee stabilization reserve (note 11)	15,000,000	15,000,000
Education reserve (note 11)	3,053,831	3,677,388
	28,335,388	27,771,751
	$ 39,552,040	$ 38,697,630

Going concern basis of accounting (Note 1)
Commitments and contingencies (Note 16)

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

BRENDA M. LEONG
Chair and Chief Executive Officer

DAVID J. SMITH
Member

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2010 (audited)
British Columbia Securities Commission

YEAR ENDED	MARCH 31, 2010	MARCH 31, 2009
REVENUES		
Fees		
Prospectus and other distributions	$ 16,249,208	$ 16,019,192
Registration	9,618,920	9,635,665
Financial filings	4,742,439	4,599,424
Exemptive orders and other	225,487	227,458
Enforcement sanctions (note 13)	254,212	262,716
Enforcement cost recoveries (note 13)	1,555	24,110
Investment income (note 10)	316,668	1,310,168
	$ 31,408,489	$ 32,078,733
EXPENSES		
Salaries and benefits (note 15)	$ 23,066,045	$ 22,576,223
Professional services	2,066,288	2,031,997
Occupancy	1,967,381	1,976,924
Depreciation	1,038,372	999,880
Information management	579,335	797,695
Education reserve (note 11)	911,580	654,236
External communications	175,158	258,632
Administration	354,773	265,766
Staff training	289,939	369,296
Business travel	269,741	364,346
Telecommunications	126,240	135,018
	$ 30,844,852	$ 30,430,013
EXCESS OF REVENUES AND COMPREHENSIVE INCOME	$ 563,637	$ 1,648,720

Going concern basis of accounting (Note 1)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF SURPLUSES

For the year ended March 31, 2010 (audited)
British Columbia Securities Commission

	GENERAL	FEE STABILIZATION RESERVE (NOTE 11)	EDUCATION RESERVE (NOTE 11)	TOTAL
BALANCE, MARCH 31, 2008	$ 7,234,476	$ 15,000,000	$ 3,888,555	$ 26,123,031
Excess of revenues	1,648,720	–	–	1,648,720
Appropriation during the year	211,167	–	(211,167)	–
BALANCE, MARCH 31, 2009	$ 9,094,363	$ 15,000,000	$ 3,677,388	$ 27,771,751
Excess of revenues	563,637	–	–	563,637
Appropriation during the year	623,557	–	(623,557)	–
BALANCE, MARCH 31, 2010	$ 10,281,557	$ 15,000,000	$ 3,053,831	$ 28,335,388

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended March 31, 2010 (audited)
British Columbia Securities Commission

YEAR ENDED	MARCH 31, 2010	MARCH 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 30,709,671	$ 30,527,468
Cash receipts from enforcement sanctions	240,907	302,675
Cash paid to and on behalf of employees	(22,928,217)	(22,286,036)
Cash paid to suppliers and others	(6,942,891)	(6,778,580)
Investment income received	326,668	1,333,668
	$ 1,406,138	$ 3,099,195
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(263,269)	(684,147)
Net increase in cash and cash equivalents	$ 1,142,869	$ 2,415,048
Cash and cash equivalents, beginning of period	35,401,548	32,986,500
Cash and cash equivalents, end of period	$ 36,544,417	$ 35,401,548
Represented by:		
Cash and short term investments	$ 18,490,586	$ 16,724,160
Investments held for designated purposes	18,053,831	18,677,388
	$ 36,544,417	$ 35,401,548

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

The British Columbia Securities Commission (BCSC) is a Crown corporation created by the Province of British Columbia on April 1, 1995. We are responsible for the administration of the *Securities Act*. As a crown corporation, the BCSC is exempt from income taxes.

We have prepared these financial statements on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The debate on structuring Canadian securities regulation continues. We expect the BCSC to remain a going concern while participating governments consider and perhaps implement a different regulatory structure.

2. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to Canadian generally accepted accounting principles that are applicable to publicly accountable enterprises. Significant accounting policies followed in the preparation of these financial statements are:

a) Short-term and designated investments

Under the BC *Securities Act*, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation (bcIMC), a BC government organization, administers. We buy units in pooled investment funds that invest primarily in:

- Canadian money market investments maturing within 15 months, and
- Canadian federal and provincial government bonds and Canadian dollar fixed income securities maturing within five years and insured or guaranteed by sovereign governments and supranational debt securities.

Any earnings from our investments are reinvested in the same fund and returns adjust the carrying value of the units we own.

We consider the fair value of our short-term investments and investments held for designated purposes to be market value because we can liquidate these investments immediately and without penalty. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act. See note 3 for more information about our financial instruments.

b) Capital assets

We record our capital assets at cost. We depreciate them using the straight-line method over their useful lives. We estimate the useful lives of our assets to be as follows:

Tangible

- Information technology assets – four years
- Leasehold improvements – the remaining lease term to November 2011
- Office furniture and equipment – ten years

Intangible

- Software and development costs – four years

c) Revenue

We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as most filings are paid for immediately.

Registration fees are paid to us in advance. We defer registration fees and recognize them in revenue over the calendar year to which they relate.

We recognize enforcement sanctions when we determine they are collectible.

d) Estimates

Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of amounts receivable that we will collect
- useful lives of capital assets
- value of the employee leave liability

Results may differ from these estimates.

e) Accounting policy changes

We retroactively adopted new handbook section 3064 *"Goodwill and Intangible Assets"*. This new section provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and converges Canadian GAAP for goodwill and intangible assets with International Financial Reporting Standards. Under the new standard, computer software that is not an integral part of the related hardware is an intangible asset and separately disclosed. To adopt the standard, we reclassified information technology assets having a net book value of $133,956 as intangible assets at April 1, 2008.

Effective January 1, 2010, we adopted amendments to Section 3862 *"Financial Instruments – Disclosure"*. The amendments add disclosures about fair value measurements for financial instruments and liquidity risk. We added the required disclosures to note 3.

f) Future accounting changes

The BCSC is a government organization within the British Columbia government reporting entity, and as such follows the accounting standards of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). The BCSC has been classified as an "other government organization" under PSAB and has chosen to follow the private sector accounting standards of the CICA.

The Canadian Accounting Standards Board (ACSB) has confirmed that, on January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. In addition to IFRS, the CICA will continue to support accounting standards for private enterprises, not for profit organizations and public sector accounting standards.

PSAB has amended the introduction to the Public Sector Accounting Handbook to confirm that "Other government organizations" should either adhere to the PSAB Handbook or to the standards for publicly accountable enterprises.

We have not determined whether to transition to IFRS or PSAB. However, we have reviewed IFRS and PSAB standards and our review did not identify the need for material accounting adjustments to become IFRS or PSAB compliant.

3. FINANCIAL INSTRUMENTS

Our financial instruments include cash and short term investments, amounts receivable, investments held for designated purposes, accounts payable and accrued liabilities, accrued salaries and employee leave liability.

We categorize our cash and short-term investments and investments held for designated purposes as "held-for-trading". We categorize amounts receivable as "loans and receivables", and accounts payable and accrued liabilities, accrued salaries and employee leave liability as "other financial liabilities".

We report financial instruments, categorized as "held-for-trading", at fair value (fair value measurement hierarchy level one – quoted market prices) in our balance sheet and recognize any gains and losses in net income for the related period. We record financial instruments, categorized as "loans and receivables" and "other financial liabilities", at cost (fair value measurement hierarchy level three – not based on observable market data), which approximates fair value, and recognize gains and losses on these financial instruments in income for the related period.

In management's opinion, amounts receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability do not expose us to significant financial risk because of their small size and short-term nature. Our use of financial instruments in our investment portfolio exposes us to the following material risks:

- credit risk—the possibility that an underlying issuer will default, by failing to repay principal and interest in a timely manner
- liquidity risk—the possibility that we will not be able to sell our investments when we want to
- market risk—the possibility that our investments may decline over time because of economic changes or other events that affect large portions of the market
- interest rate risk—the possibility that the value of our investments and the related investment returns will fluctuate over time because of interest rate changes

In management's opinion, our investments do not expose the BCSC to significant credit or material market risk because we invest in liquid, high quality money market instruments and government securities. Liquidity risk is low because our investments are in pooled fund units redeemable on demand and without penalty. The underlying assets in the pool are also highly liquid. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC.

4. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments are carried at fair value, and consist of:

	MARCH 31, 2010			MARCH 31, 2009		
	UNITS	EXPECTED RETURN	MARKET VALUE	UNITS	EXPECTED RETURN	MARKET VALUE
Cash		0.35%	$ 11,058,703		0.60%	$ 10,212,684
Pooled Canadian Money Market Fund ST2	–	–	–	1.75	0.50%	6,511,476
Short-Term Bond Fund	3.32	1.00%	7,431,883	–	–	–
		0.61%	$ 18,490,586		0.56%	$ 16,724,160

5. AMOUNTS RECEIVABLE

Amounts receivable consist of:

	MARCH 31, 2010	MARCH 31, 2009
Enforcement sanctions	$ 126,380	$ 111,520
Late insider report filing fees	261,360	99,785
Due from CSTO (a)	299,679	–
National project recoveries	5,216	41,000
Employee advances and other	41,604	59,014
	$ 734,239	$ 311,319

(a) The BCSC seconded employees to, and provides procurement and accounting support to, the Canadian Securities Regulatory Regime Transition Office (CSTO) on a cost recovery basis. The balance reflects costs receivable from the CSTO as at March 31, 2010.

6. PREPAID EXPENSES

Prepaid expenses consist of:

	MARCH 31, 2010	MARCH 31, 2009
IIROC registration processing fees	$ 270,621	$ 289,730
Information technology maintenance contracts	96,992	14,159
	$ 367,613	$ 303,889

7. INVESTMENTS HELD FOR DESIGNATED PURPOSES

Investments held for designated purposes are carried at fair value, and consist of:

	MARCH 31, 2010			MARCH 31, 2009		
	UNITS	EXPECTED RETURN	MARKET VALUE	UNITS	EXPECTED RETURN	MARKET VALUE
Pooled Canadian Money Market Fund ST2	0.94	0.50%	$ 3,508,231	2.58	0.50%	$ 9,586,738
Short-Term Bond Fund	6.51	1.00%	14,545,600	4.11	1.13%	9,090,650
		0.90%	$ 18,053,831		0.81%	$ 18,677,388

8. CAPITAL ASSETS

Capital assets consist of:

	MARCH 31, 2010			MARCH 31, 2009
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Tangible:				
Leasehold improvements	$ 4,115,892	$ 3,446,472	$ 669,420	$ 1,067,148
Office furniture	2,054,213	1,752,726	301,487	506,963
Office equipment	439,541	360,004	79,537	117,794
Information technology	1,271,649	733,142	538,507	769,129
	$ 7,881,295	$ 6,292,344	$ 1,588,951	$ 2,461,034
Intangible:				
Software	649,373	332,553	316,820	219,840
	$ 8,530,668	$ 6,624,897	$ 1,905,771	$ 2,680,874

During the year, additions to intangible assets were $212,796 (fiscal 2009 - $164,943), lower than reported at December 31, 2009, due to the BCSC returning software to a supplier. The amounts expensed as amortization were $112,794 (fiscal 2009 - $82,082)

9. EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

10. INVESTMENT INCOME

The investment income related to financial assets is as follows:

	FOR THE YEAR ENDED MARCH 31, 2010			FOR THE YEAR ENDED MARCH 31, 2009		
	AVERAGE BALANCE	INVESTMENT INCOME	ANNUALIZED RETURN	AVERAGE BALANCE	INVESTMENT INCOME	ANNUALIZED RETURN
Cash	$ 8,070,264	$ 29,818	0.37%	$ 10,380,158	$ 260,241	2.51%
Pooled Canadian Money Market Fund (ST2)	9,057,395	51,625	0.57%	15,498,917	689,421	4.45%
Short-Term Bond Fund	18,418,896	235,224	1.28%	9,096,967	360,505	3.96%
	$ 35,546,555	$ 316,668	0.89%	$ 34,976,043	$ 1,310,168	3.75%

Investment income is net of management fees and a portion is allocated to the Education reserve.

11. RESERVES

	FEE STABILIZATION (a)	EDUCATION (b)	TOTAL
BALANCE, MARCH 31, 2008	$ 15,000,000	$ 3,888,555	$ 18,888,555
Additions and appropriations	–	262,716	262,716
Investment income allocation	–	180,353	180,353
Disbursements	–	(654,236)	(654,236)
BALANCE, MARCH 31, 2009	$ 15,000,000	$ 3,677,388	$ 18,677,388
Additions and appropriations	–	254,212	254,212
Investment income allocation	–	33,811	33,811
Disbursements	–	(911,580)	(911,580)
BALANCE, MARCH 31, 2010	$ 15,000,000	$ 3,053,831	$ 18,053,831

a) Fee stabilization reserve

We appropriate amounts from our general surplus to the fee stabilization reserve so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases.

b) Education reserve

We order administrative penalties and disgorgements under the *Securities Act*. We also negotiate settlement amounts. We appropriate revenue from penalties, settlements, and unclaimed disgorgements to our Education reserve, which we spend only to educate securities market participants and the public about investing, financial matters or the operation or regulation of securities markets. We mix Education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the Education reserve.

12. CAPITAL MANAGEMENT

Our capital management objective is to safeguard our ability to protect investors and foster fair and efficient markets. In order to maintain sufficient capital, we monitor our fee structure and propose fee changes to government to ensure we break even over the business cycle. In addition, we maintain a fee stabilization reserve of between 37.5% and 62.5% of prior year operating expenses. We also manage our expenses so that they do not exceed expected revenue over the business cycle. We do this by:

- Preparing an annual budget approved by the Board
- Monthly budget variance reporting to management
- Requiring Board approval for significant unbudgeted expenses
- Continually improving the efficiency of our processes

Our capital is comprised of cash and short-term investments and investments held for designated purposes. We invest our capital conservatively in highly liquid, high quality, money market instruments and government securities to ensure capital preservation.

13. ENFORCEMENT SANCTIONS AND ENFORCEMENT COST RECOVERIES

Enforcement sanctions include administrative penalties, settlements and unclaimed disgorgements. Revenues depend on the timing of enforcement actions completed during the year and on our ability to collect assessed amounts.

We assessed enforcement sanctions of $42.3 million (fiscal 2009 - $0.7 million) during the year, of which we did not recognize $42.0 million (fiscal 2009 - $0.5 million) as revenue because we do not expect to receive payment. We recognized an additional $nil (fiscal 2009 - $0.1 million) of cash receipts related to prior period sanctions as revenue.

Effective fiscal 2008, we stopped designating portions of settlement amounts as cost recoveries. Commission staff also stopped applying for hearing cost recoveries. Enforcement cost recoveries are cash collections of cost recoveries relating to years prior to fiscal 2008.

Collecting enforcement sanctions and cost recoveries can be difficult because respondents often have limited assets, poor credit or have left British Columbia. We pursue outstanding amounts vigorously and indefinitely.

14. RELATED PARTY TRANSACTIONS

We are related through common ownership to all BC provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

15. POST-RETIREMENT EMPLOYEE BENEFITS

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has about 55,000 active members and approximately 33,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan performed every three years assesses the plan's financial position. The latest valuation, as at March 31, 2008, indicated a $487 million surplus for basic pension benefits. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis.

The plan trustees monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged $1,570,855 to expense for employer contributions during the period (fiscal 2009 - $1,492,206).

16. COMMITMENTS AND CONTINGENCIES

a) Office lease

We have leased office space to November 30, 2011. Our annual rent, net of sublease recoveries, is approximately $925,000. We also pay our share of building operating and maintenance costs.

b) National electronic filing systems and operating agreements

Under various agreements with the Canadian Securities Administrators (CSA), CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. Should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (shortfall). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (surplus) to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost (expense) variances equally.

The OSC is holding $49.1 million (March 2009 - $35.2 million) in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to March 31, 2010. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

In fiscal 2010, the CSA began a national project to redevelop SEDAR and SEDI. As at March 31, 2010, payments related to the systems redevelopment project totalled $82,184. The CSA has entered into a professional services contract, totalling $750,000, to design a national filing system Enterprise Architecture. The contractor (Fujitsu) has submitted an invoice for $187,600.

c) Legal actions

We are involved in legal actions arising from the operation of our business. The outcome and ultimate disposition of these actions are not yet determinable. We do not expect the outcome of any of these proceedings, individually or in total, to have a material impact on our financial position.

17. COMPARATIVE FIGURES

We have reclassified certain comparative figures to conform to current presentation.

ENFORCEMENT AND EDUCATION FUND REPORTS

ENFORCEMENT REPORT

Market misconduct, including investment fraud, poses a significant risk to the integrity of BC's capital markets. A credible enforcement program is a powerful tool to ensure compliance and deter inappropriate and illegal market conduct, and sends a strong message to the market and public.

"Effective enforcement requires knowledgeable professionals who can detect and respond to misconduct, both from inside and outside of BC, that affects our capital markets."

PROTECTING INVESTORS AND MARKET INTEGRITY

Our Enforcement division utilizes all of the regulatory tools at its disposal to protect investors who might fall victim to fraud or other abusive activity. We aim to detect misconduct early, disrupt and stop the activity, and then pursue it vigorously to deter future harm to investors and the capital markets.

BCSC staff investigates complaints of market misconduct, and the executive director can take early, decisive action by issuing temporary enforcement orders to intervene and stop ongoing misconduct. After an investigation, the executive director brings cases before Commission panels at an administrative hearing. Commission panels have broad powers under the *Securities Act* to take action against misconduct, including ordering market bans, administrative penalties and the disgorgement of ill-gotten gains. Commission decisions and settlements act as deterrents to those who seek to harm investors and our capital markets.

COLLABORATIVE ENFORCEMENT

We work with securities regulators in other jurisdictions to reciprocate market bans, share information and conduct investigations. During the year, we received 19 formal requests for assistance from US federal and state authorities, including the US Securities and Exchange Commission (SEC) and the US Commodity Futures Trading Commission (CFTC). We sent four formal requests for assistance to the SEC and CFTC, and six formal requests to the UK Financial Services Authority and other foreign authorities. We also assisted the Hong Kong Securities and Futures Commission with two registration reviews.

Under BC law, we do not have the power to conduct criminal prosecutions; therefore, we must collaborate with the police and Crown Counsel to pursue these cases through the courts. We also work with other enforcement agencies and financial institutions to raise awareness of investment fraud. Our work aims to encourage early reporting of investment fraud and deter misconduct that can harm investors and our capital markets.

CROSS-DIVISIONAL INITIATIVES

Awareness and education can help detect, stop, and prevent investment fraud. The Enforcement division plays an active role in the BCSC's InvestRight program. Enforcement staff participate in delivering investment fraud awareness courses to police and take part in our province-wide education seminars. They also work with Communications & Education staff to issue public warnings through InvestRight Investor Watches and Alerts about possible fraudulent investment schemes or unsuitable investments. BCSC staff also communicate through the news media, internet, and face-to-face seminars to increase fraud awareness and reporting.

HOW THE BCSC HANDLES ENFORCEMENT CASES

1 THE ENFORCEMENT PROCESS STARTS WITH A:

- Complaint from an investor or securities industry participant
- Referral from another agency
- Referral from the BCSC's intelligence unit or inquires group
- Referral from another BCSC division

2 THE BCSC'S INTELLIGENCE AND ASSESSMENT BRANCH REVIEWS EACH COMPLAINT, OR REFERRAL, AND CAN THEN:

- Resolve and close the file with a caution letter
- Refer it to another agency, for example, a criminal case would be referred to a law enforcement agency
- Refer it to the executive director and Communications & Education division to issue an Investor Alert
- Refer it to the BCSC's investigation branch
- Refer it to the BCSC's Capital Markets Regulation or Corporate Finance division if it involves a registrant or public company

3 AFTER INVESTIGATING A CASE, THE INVESTIGATION BRANCH CAN:

- Resolve and close the file with a caution letter
- Refer it to the litigation branch
- Resolve it through a negotiated settlement

4 THE LITIGATION BRANCH REVIEWS EACH CASE AND CAN:

- Pursue it through a hearing before a panel of BCSC commissioners
- Resolve it through a negotiated settlement

In steps 2, 3, and 4, the BCSC can close the file without action if there is insufficient evidence or it is not in the public interest to pursue it.

ENFORCEMENT ACTIVITY APRIL 1, 2009 – MARCH 31, 2010

WE HANDLED 177 NEW CASES LAST YEAR. MANY OF THEM INCLUDING MULTIPLE VIOLATIONS WITH:

- 94 related to unregistered activity
- 70 related to illegal sales of securities
- 47 related to fraud
- 14 related to registrant misconduct
- 72 related to director and officer misconduct
- 60 involved misrepresentations
- 25 related to insider trading
- 40 involved civil disputes outside our mandate
- 29 involved market manipulation allegations
- 6 breaches of order
- 16 disclosure violations

WE BEGAN THE FISCAL 2010 YEAR WITH TEN NOTICES OF HEARING OUTSTANDING. AT YEAR-END, WE HAD 13 NOTICES OF HEARING OUTSTANDING. HERE IS THE ENFORCEMENT ACTIVITY BEGINNING APRIL 1, 2009:

- 10 new notices of hearing (including 7 temporary orders)
- 2 decisions finding liability
- 37 sanction decisions (including 33 reciprocal orders)
- 14 settlement agreements

ENFORCEMENT HIGHLIGHTS

We post all notices of hearing, decisions and settlements in the enforcement section of our website, where they are searchable by name and keyword.

INVESTOR ALERTS AND TEMPORARY ORDERS

> "We use Investor Alerts and temporary orders to try to disrupt, stop, and prevent illegal investment activities."

Genius Funds (a.k.a Genius Investments)

After receiving a tip from a financial institution in early February 2010, the BCSC's executive director immediately stopped Genius Funds, also known as Genius Investments, from selling its securities until a hearing was held.

Genius Funds had solicited two BC investors: one wired $25,000 to the company; the other did not. Genius Funds claimed to be based in Cyprus.

Following the executive director's temporary order, the Cyprus Securities and Exchange Commission (CSEC) warned investors that it had never authorized Genius Funds and did not regulate it. Other Canadian regulators also stopped Genius Funds selling its securities and issued investor alerts.

During the investigation, staff identified social media websites that were used to promote Genius Funds investments and a referral program. Genius Funds was placed on the BCSC's Investment Caution List. BCSC staff also alerted investors through blogging and social media outreach.

On April 7, 2010, a BCSC panel permanently banned Genius Funds for illegally selling securities through its website and for offering investors a rate of return so high it could not be earned through legal means. Genius Funds did not attend the hearing. A week later, the CSEC referred Genius Investments Ltd. to the republic's attorney general for possible criminal code violations.

Sung Wan (Sean) Kim

On October 13, 2009, Sung Wan (Sean) Kim, a director and salesperson at Cirplus Futures Inc., was the subject of an Investor Alert. The BCSC issued the alert after staff received a tip from the RCMP regarding Kim's activities.

Immediately following the alert, the BCSC opened a dedicated Korean-language phone line and published a webpage on the InvestRight website to inform investors and encourage reporting to further the investigation.

On November 3, 2009, the executive director issued a temporary order and notice of hearing against Kim. The executive director amended the notice of hearing on June 1, 2010.

The temporary order prohibits Kim from trading securities and exchange contracts, prohibits him from conducting investor relations, and suspends his registration. It is in effect until the Commission holds a hearing and a decision is rendered.

The amended notice of hearing alleges that Kim raised Cdn $14 million from 31 investors between January 24, 2007 and July 16, 2009. Kim allegedly entered into investment agreements with investors, promising to purchase US treasury bills or engage in options trading on the investors' behalf. Kim offered various rates of return. Some investors received payments that purported to be returns, but most lost all of their investment.

Additionally, the amended notice alleges that Kim gave investors forged documents that related to their investments. These documents were prepared on forged Commission letterhead, contained untrue statements, and were purported to be authored by individuals who did not work at the BCSC.

The allegations in the notice of hearing have not been proven. Korean authorities arrested Kim on or about October 18, 2009, and he is currently on trial in Korea.

CRIMINAL CASES

As part of our commitment to strengthen criminal enforcement, we continued to investigate and refer cases to Crown Counsel to pursue criminal charges where warranted. We dedicate two investigators to work solely on criminal and quasi-criminal cases, and other investigators are available to assist on an ad-hoc basis.

Since April 2009, the Enforcement division has referred five new cases to Crown Counsel. Of those cases, three have received charge approval, with charges pending in the two others.

SETTLEMENTS

> "In a settlement agreement, the person subject to the allegations admits to misconduct and consents to an enforcement order, a financial payment, or another appropriate remedy."

John Gregory Paterson

John Gregory Paterson, the former president and CEO of Southwestern Resources Corp., admitted that he committed fraud when he entered false assay results related to Southwestern's Boka project in China into the company's database.

In addition to the fraud admission in the BCSC settlement agreement, he admitted to illegal insider trading and to causing the false data about the gold mining operation to be reported in 24 news releases between March 7, 2003 and February 21, 2007.

As part of the settlement agreement, Paterson, a geologist, undertakes not to act as a Qualified Person – an individual who prepares mining-related disclosure for issuers – in his lifetime.

In addition, he is permanently banned, with limited exceptions, from trading securities or acting as a director or officer. Finally, he is permanently prohibited from engaging in investor relations activities or acting in a management or consultative capacity in connection with activities in the securities market.

Paterson voluntarily contributed all of his assets in settlement of lawsuits, and is unable to pay the approximately $3.5 million to the BCSC that would have been required in this matter.

Cem Ali

Cem Ali, a 33-year-old BC resident, admitted that he illegally traded and distributed securities, made misrepresentations, and contravened a cease trade order.

Between August 29, 2006 and January 2008, Ali raised US $34 million from 957 investors through the sale of Horizon FX Investments Limited Partnership (Horizon LP) units without being registered and without filing a prospectus. Investor funds were sent to a U.S. company, Razor FX, Inc., that purported to trade Forex contracts on behalf of Horizon LP.

In addition, Ali made misrepresentations by making untrue, false or misleading statements in an offering memorandum, website and brochure that promoted the sale of Horizon LP securities. He also received approximately Cdn $2.5 million of investor funds after the BCSC issued a cease trade order on October 18, 2007.

Under the settlement agreement, Ali is permanently prohibited from engaging in investor relations activities, acting as a director or officer of any issuer, becoming or acting as a registrant, investment fund manager or promoter, and acting in a management or consultative capacity in connection with activities in the securities market. He is also permanently banned, with limited exceptions, from trading and purchasing securities.

On September 1, 2009, Ali, Horizon LP, Horizon FX Investments Incorporated, and HFX Management Services Inc. became bankrupt.

The BCSC froze assets and property from Ali and his companies. Staff is working with the bankruptcy trustee to ensure an orderly distribution of these assets to investors. Furthermore, in settlement of this matter, Ali agreed to distribute to investors through the trustee any money returned to him through a claim he filed for Horizon LP on the assets of Razor FX seized by US authorities.

If Ali were not bankrupt, a monetary penalty of Cdn $1 million would have been assessed in this matter.

Dalton Bruce Dupasquier

Dalton Bruce Dupasquier, a White Rock resident, admitted to illegally selling 397,500 New Cantech Ventures Inc. shares between March 13 and April 24, 2007 avoiding a loss of $179,862.

At the time of the trades, Dupasquier was the company's president and CEO, and New Cantech was a reporting issuer that listed its shares on the TSX Venture Exchange.

Dupasquier illegally sold New Cantech shares prior to the company disclosing that the BCSC had sent a demand letter to New Cantech requiring that it retract and restate mineral and economic estimates. Dupasquier sold his shares on an honestly held, but mistaken belief, that the BCSC demand letter was not material.

Under the settlement agreement, Dupasquier is paying $179,862 to the BCSC, being the amount of the loss avoided.

He is also banned for five years, except in limited circumstances, from acting as a director or officer of any issuer. He is also prohibited for one year, except with certain exceptions, from selling or purchasing securities or exchange contracts.

FINDINGS, HEARINGS AND DECISIONS

Manna Trading Corp Ltd. and other respondents

On August 4, 2009, a BCSC panel found that Hal (Mick) Allan McLeod, David John Vaughan, Kenneth Robert McMordie (also known as Byrun Fox), and Dianne Sharon Rosiek violated securities laws when they fraudulently distributed securities and made misrepresentations through Manna Trading Corp Ltd., Manna Humanitarian Foundation, Legacy Capital Inc., and Legacy Trust Inc.

The panel found that McLeod created the Manna scheme, and he expanded it with Vaughan's help, and later more aggressively expanded it with the assistance of McMordie (who used the name Byrun Fox) and Rosiek. The panel found that McLeod, Vaughan, McMordie, and Rosiek fraudulently used investors' funds to enrich themselves before the scheme collapsed in 2007.

Noting that Manna's 800 investors lost up to US $13 million, the panel said, "Nothing strikes more viciously at the integrity of our capital markets than fraud, and this case represents a particularly aggressive and flagrant assault on the public's confidence in our markets."

In its sanctions decision, the panel fined McLeod $8 million, and ordered Vaughan, Rosiek, and McMordie to pay penalties of $6 million each. The panel also ordered each respondent, including the companies, to disgorge the $16 million the scheme obtained from investors.

In addition, the panel permanently banned McLeod, Vaughan, McMordie, and Rosiek from trading securities or exchange contracts and from being a manager or consultant in connection to the securities market. Each of them, are also prohibited from being a director or officer of any issuer, registrant or investment fund manager, being a registrant, investment fund manager or promoter, and from engaging in investor relations activities.

"Following a hearing, if a Commission panel finds that allegations of misconduct are proven, the panel can make enforcement orders, impose financial penalties or order the disgorgement of ill-gotten funds."

The panel also permanently cease traded the securities of Manna Trading Corp Ltd., Manna Humanitarian Foundation, Legacy Capital Inc., and Legacy Trust Inc., and permanently banned the companies from trading securities or exchange contracts.

Philip Wong

A Commission panel permanently banned Philip Wong, a former BC registrant and stock promoter, from the province's capital markets after he pleaded guilty and was sent to prison for committing securities fraud in the United States.

On October 23, 2008, Wong was sentenced to 21 months in prison and two years supervised release after he pleaded guilty to numerous charges filed against him in U.S. courts.

The charges filed in New York and New Jersey alleged Wong conspired to commit securities fraud in relation to the securities of TotalMed, Inc., eNotes Systems, Inc., and Secureware, Inc. He also faced charges of committing securities fraud in relation to the securities of Secureware, eNotes Systems and Jake's Trucking International, Inc.

Using a section of the *Securities Act* that allows BCSC Commission panels to issue sanctions based on criminal convictions, a Commission panel issued sanctions against Wong.

Under the Commission's order, Wong is permanently banned from trading or purchasing securities and exchange contracts. He is also permanently prohibited from:

- acting as a director and officer of any issuer, registrant or investment fund manager;
- acting as a registrant, investment fund manager or promoter;
- acting in a management or consultative capacity in connection with activities in the securities market; and,
- engaging in investor relations activities.

Geosam Investments Limited and the TSX-V

In November 2009, Geosam Investments asked the Commission to review the TSX-V decision approving Cordy Oilfield Services private placement. Upon receiving TSX-V approval, Cordy had closed the private placement.

A BCSC panel heard submissions about whether it had jurisdiction to hear the review, and if so, whether it had discretion to refuse jurisdiction. The panel ruled that it had jurisdiction, and did not have discretion to refuse it.

Then, the panel ruled that until the disposition of the review, Cordy must deposit the proceeds of the private placement in trust with its legal counsel, and that the Exchange must not take any further action on the private placement.

"The private placement involved significant dilution and raised control issues," the panel said. "The Exchange did not require shareholder approval, which Geosam says was required under Exchange rules. Without judging whether the Exchange's decision was appropriate, it is clear that the Geosam application raises serious issues."

Following the panel's rulings, the Exchange decided not to defend its decision, and Cordy unwound the private placement.

Then, Geosam applied for costs in the public interest. The panel found that the Commission did not have the power under its legislation to order costs on a review.

Partners in Planning Financial Services Ltd. and the MFDA

In November 2009, a BCSC panel decided to hear Partners in Planning Financial Services' application challenging an amendment to a governance bylaw passed at a special meeting of members of the MFDA.

Partners said that certain directors should not have been directors, that as a result directors had conflicts of interest in fulfilling their duties and that MFDA staff inappropriately solicited proxies for the meeting.

These allegations raised public interest concerns for the panel.

"The system of securities regulation we have in Canada depends on the roles played by regulatory organizations like the MFDA," the panel said. "It is essential that those organizations operate, and are seen to operate, in a manner that leaves no room to question the integrity of their governance, procedures and practices. It is equally essential that any allegations that could raise those questions be dealt with thoroughly and openly."

The hearing was set for April 2010. At the hearing, the MFDA, Partners, and the BCSC's executive director, made a joint submission that it was no longer in the public interest to have the hearing, and Partners withdrew its application.

The panel reserved its decision. At the time the BCSC Board finalized the annual report, the panel had not made a decision.

BCSC EDUCATION FUND

The BCSC established an education fund in 1991 to receive revenue from administrative penalties imposed on market participants who violate securities legislation. Under the *Securities Act*, we may spend this money only on investor and industry education.

"During the year, BCSC staff presented 42 InvestRight seminars to 1,709 people in communities across BC."

During the year, we focused our investor education activity, and education fund disbursements, on three broad objectives:

- Encouraging people to protect themselves and invest wisely
- Creating awareness and reporting of investment fraud
- Promoting financial life skills for youth and our role as an educator

We list education fund disbursements on our website.

Encouraging people to protect themselves and invest wisely

We deliver our investor education program primarily through the website InvestRight.org. This website features tools and information designed to help people invest wisely as well as avoid and report investment fraud.

Throughout the year, we focused our social media efforts on reaching investors through our blog *Let's talk about investing*, adding relevant commentary to investment frauds covered by mainstream media or cases our Enforcement division had pursued. In fall 2009, we partnered with the Alberta Securities Commission to create a multi-media tool, *Protect Your Money*, that we promoted on YouTube, through radio advertising, and in seminars across the province.

In January 2010, we published the second edition of our *Guide to Investing: How to work with your investment advisor*. This expanded and updated e-book features interactive worksheets and a new section on investing in private companies. People downloaded the guide nearly 16,000 times between January and March 2010.

We continued to use radio advertising, social media, and proactive media relations to reach investors and encourage them to visit the InvestRight website. Our advertising campaigns targeted investors throughout BC, as well as the Chinese and South Asian communities in the Lower Mainland.

Website visits were 131% above the previous year's total[1] by fiscal year-end. We also surveyed a radio listening audience before and after one of our advertising campaigns. We found that three-quarters of listeners were familiar with the ad campaign and 80% of them found it informative.

Creating awareness and reporting of investment fraud

We spend a significant proportion of our education fund disbursements to support the InvestRight seminar program and a variety of targeted partnerships with community-based organizations that help us take our investor protection message to many BC regions.

In fiscal 2010, we revised our seminar presentation based what we learned from the CSA Investor Index 2009. Our staff ambassadors presented this new material in seminars across BC, both on their own and with our partners at various organizations and events. We also continued collaborating with enforcement staff to deliver specialized seminars to police agencies and financial institutions to emphasize the importance of the early detection and reporting of investment fraud.

Our partners included the Better Business Bureau of Mainland BC, the Canadian Conference of Mennonite Brethren Churches (Mennonite Brethren), The Smart Cookies, CUPE and two pastors known as "God's Fraud Squad."

1. We measure InvestRight visits from October 1 to September 30. We launched InvestRight in October 2006.

Promoting our role as an educator

Teaching financial life skills and raising awareness about their importance is a priority for our Commission. Financial life skills are the ability to manage money with knowledge and confidence throughout one's life.

In September 2008, FCAC and the BCSC launched *The City*, a web-based, bilingual financial education resource that is available to students and teachers across Canada. This year, we continued to market both the BCSC resource and *The City* programs, train teachers, and give district presentations on *Planning 10: Finances*.

We concluded the most efficient and effective way to train teachers is to develop a new generation of teachers who are interested, passionate and knowledgeable about teaching financial life skills. This year, we gave workshops to education students at six BC universities.

Finally, we began a full revision and update of the BCSC resource. We are adding many new elements, including an expanded banking module, and new modules on investing as well as theft and fraud. We plan to begin distributing the new resource in September 2010.

RESOURCES FOR INVESTORS

If you have questions regarding your financial adviser, investment firm, or an investment type, or if you would like to make a complaint, please call our Inquiries Group at 604.899.6854. Outside the greater Vancouver area: 1.800.373.6393. Email: inquiries@bcsc.bc.ca.

The BCSC's InvestRight website (www.investright.org) offers a range of tools to help investors develop critical thinking skills. The site also enables visitors to conduct background checks, and provides information on a variety of investment products, and links to videos in which victims impacted by fraud tell their personal stories.

The BCSC corporate website (www.bcsc.bc.ca) offers information to promote understanding of the financial system and to help investors make financial decisions. The information is not a substitute for financial or other professional advice. Always consult a professional adviser if you need financial advice.

For information about public companies and mutual funds, visit the SEDAR website: www.sedar.com.

For information about insider trading activity and viewing insider reports online, visit the SEDI website: www.sedi.ca.

You can download this annual report from the publications section of the website.
The online version of this report contains hyperlinks to BCSC databases, a glossary of terms, and further information pertaining to certain sections of the report.

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